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PUBLICATIONS
OF THE
AMERICAN ECONOMIC ASSOCIATION

THIRD SERIES.
VOL. IV, NO. 1.

ISSUED QUARTERLY.
PRICE, \$4.00 PER YEAR.

PAPERS AND PROCEEDINGS

OF THE

FIFTEENTH ANNUAL MEETING

PHILADELPHIA, PA.

DECEMBER 26-29, 1902

FEBRUARY, 1903

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AMERICAN ECONOMIC ASSOCIATION

The American Economic Association is an organization composed mainly of persons interested in the study of political economy or the economic phases of political and social questions. As may be seen by examining the list of members and subscribers printed in this volume, not only are all universities and most prominent colleges in the country represented in the Association by their teachers of political economy and related subjects, but even a larger number of members come from those interested as business men, journalists, lawyers or politicians in the theories of political economy or, more often, in their applications to social life. There are further more than one hundred subscribers, nearly all being large libraries.

The first two meetings of the Economic Association in 1885 and 1887, and the meetings of 1897, 1898, 1900, 1901, and 1902, were at the same place as those of the American Historical Association. Joint sessions and less formal gatherings of the members of the two Associations were thus held. The annual meetings give opportunity for social intercourse among the teachers and public men composing the Association's membership. They contribute also to create and cement acquaintanceship and friendship between teachers of economics and cognate subjects in different institutions, and so to counteract any tendency to particularism which the geographical separation and the diverse traditions of American colleges might be deemed to foster.

The Publications of the Association, a complete list

of which is printed at the end of this volume, were begun in March, 1886. The first series of eleven volumes was completed by a general index in 1897. The second series, comprising two volumes, was published in 1897-99, and in addition thereto the Association issued, during 1896-99, four volumes of Economic Studies. In 1900, a third series of quarterly Publications was begun with the Papers and Proceedings of the Twelfth Annual Meeting, and has been continued since with ample amount and variety of matter. It is intended to add to these quarterly numbers, from time to time, such monographic supplements as the condition of the treasury and the supply of suitable manuscript may make possible.

The American Economic Association is the organ of no party, sect or institution. It has no creed. Persons of all shades of economic opinion are found among its members, and widely different views are given a hearing in its annual meetings and through its publications.

The officers of the Association and the contributors to its Publications receive no pay for their services. Its entire receipts are expended in printing and circulating the Publications and in the slight expenses attendant upon the annual meetings. Any member, therefore, may regard his annual dues either as a subscription to an economic publication, a payment for membership in a scientific association, or a contribution to a publication fund for aiding the publication of valuable manuscript that might not be accepted by a publishing house governed primarily by motives of profit, and that could not be published by the writer without incurring too heavy a burden of expense.

CONSTITUTION

ARTICLE I.

NAME.

This Society shall be known as the AMERICAN ECONOMIC ASSOCIATION.

ARTICLE II.

OBJECTS.

1. The encouragement of economic research, especially the historical and statistical study of the actual conditions of industrial life.
2. The publication of economic monographs.
3. The encouragement of perfect freedom of economic discussion. The Association as such, will take no partisan attitude, nor will it commit its members to any position on practical economic questions.
4. The establishment of a bureau of information designed to aid members in their economic studies.

ARTICLE III.

MEMBERSHIP.

Any person may become a member of this Association by paying three dollars, and after the first year may continue a member by paying an annual fee of three dollars. On payment of fifty dollars any person may become a life member, exempt from annual dues.¹

ARTICLE IV.

HONORARY MEMBERS.

The Council may elect foreign economists of distinction not exceeding twenty-five in number, honorary

¹ NOTE—Each member receives all reports and publications of the Association.

members of the Association. Each honorary member shall be entitled to receive all reports and publications of the Association.

ARTICLE V.

OFFICERS.

The officers of the society shall consist of a President, three Vice-Presidents, a Secretary, a Treasurer, a Publication Committee, and a Council.

ARTICLE VI.

COUNCIL.

1. The Council shall consist of an indefinite number of members of the society, chosen, with the exception of the original members, for three years. It shall have power to fill all vacancies in its membership, and may add to its number.

2. It shall elect the President, Vice-Presidents, Secretary, and Treasurer; the President, the Secretary, the Treasurer and the Chairman of the Publication Committee, together with three other members to be elected by the Council, shall constitute an Executive Committee with such powers as the Council may entrust to it; provided, however, that the offices of Secretary and of Treasurer may be filled by one person, and that the offices of Vice-President and of elected member of the Executive Committee may be filled by one person.

3. The Council shall organize itself into a number of standing committees upon the various lines of research undertaken. These committees shall prepare reports from time to time upon such subjects relating to their respective departments as they may select, or as may be referred to them by the Council. These reports shall be presented to the Council at its regular or special meetings and be open to discussion. All papers offered to the society shall be referred to the appropriate committees before being read in Council.

4. The Council shall have charge of the general interests of the society, and shall have power to call meetings and determine what reports, papers, or discussions are to be printed, and may adopt any rules or regulations for the conduct of its business not inconsistent with this constitution.

5. The Council shall elect a Committee on Publications, which shall consist of six members, so classed that after the first election the term of two members shall expire each year. This committee shall have charge of and responsibility for the scientific publications of the Association.

ARTICLE VII.

AMENDMENTS.

Amendments, after having been approved by a majority of the Council, may be adopted by a majority vote of the members present at any regular meeting of the Association.

BY-LAWS

1. The President of the Association, who shall be *ex-officio* a member of the Council, shall preside at all meetings of the Council and Association, and perform such other duties as may be assigned to him by the Council. In case of inability to perform his duties, they shall devolve upon the Vice-Presidents in the order of their election, upon the Secretary and Treasurer, and upon the Chairmen of the Standing Committees, in the order in which the committees are mentioned in the list.

2. The Secretary shall keep the records of the Association, and perform such other duties as the Council may assign to him.

3. The Treasurer shall receive and have the custody of the funds of the Association, subject to the rules of the Council.

4. The following Standing Committees shall be organized:

- (1). On Labor.
- (2). On Transportation.
- (3). On Trade.
- (4). On Public Finance.
- (5). On Industrial and Technical Education.
- (6). On Exchange.
- (7). On General Questions of Economic Theory.
- (8). On Statistics.
- (9). On Teaching Political Economy.

The Executive Committee may appoint such special committees as it may deem best.

5. At any meeting called by the general summons of the President five members shall constitute a quorum.

6. Papers offered for the consideration of the Council, shall be referred by the Secretary, each to its appropriate committee.

7. In order to encourage economic research, the Association proposes to render pecuniary assistance in the prosecution of the same, and to offer prizes for the best monographs upon selected topics. It stands ready to accept and administer any fund placed at its disposal for either purpose.

8. The Executive Committee shall have power at any time to add new members to the Council.

9. The Executive Committee shall assign all members of the Council to one of the Standing Committees, and shall appoint the Chairmen of the Committees.

10. It shall be the duty of the Chairman of the respective Committees to organize and direct the work of the same, under the general control of the Council.

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Life members.....	75
Annual members.....	782
Subscribers.....	138
Total.....	1008

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Kansas.....	4	North Dakota.....	2	Other foreign	
Kentucky.....	4	Ohio.....	51	countries.....	55
Louisiana.....	4	Oklahoma.....	1		
Maine.....	7	Oregon.....	6	Total.....	1008

THE FIFTEENTH ANNUAL MEETING

The Fifteenth Annual Meeting of the American Economic Association was held at Philadelphia, Pa., Friday, Saturday and Monday, December 26, 27 and 29, 1902. The day sessions were held in Houston Hall in the University of Pennsylvania. The American Historical Association met at the same time and place, and joint sessions of the two Associations were held Friday evening in the auditorium of Drexel Institute, and Monday evening in Griffith Hall, 1420 Chestnut Street.

The program as carried out was as follows :

PROGRAM

First Session—Friday, December 26, 8 P. M.

Joint Session with the American Historical Association.

Welcome by Dr. JOSEPH WHARTON, Chairman of the local reception committee.

1. Subordination in Historical Treatment. Address by A. T. MAHAN, Captain U. S. N., President of the American Historical Association.
2. Economics and Social Progress. Address by EDWIN R. A. SELIGMAN, President of the American Economic Association.

Second Session—Saturday, December 27, 10 A. M.

PUBLIC REGULATION OF RAILROADS.

1. National Regulation. CHARLES A. PROUTY, Interstate Commerce Commissioner.
2. Legislative Regulation of Railroad Rates. WALKER D. HINES, Vice-President Louisville and Nashville R. R.
3. Discussion opened by EMORY R. JOHNSON, Assistant Professor of Transportation and Commerce, University of Pennsylvania, BALTHASAR H. MEYER, Professor of Institutes of Commerce, University of Wisconsin, and J. SHIRLEY EATON, Statistician of the Lehigh Valley Railroad.

Third Session—Saturday, December 27, 2.30 P. M.

ECONOMIC THEORY.

1. The Dynamics of the Wages Question. JOHN B. CLARK, Professor of Political Economy, Columbia University.
2. Discussion opened by JOHN A. HOBSON, London, Eng., and THOMAS N. CARVER, Professor of Political Economy, Harvard University.
3. Distribution by a Law of Rent. C. W. MACFARLANE, Philadelphia, Pa.
4. Discussion opened by SIMON N. PATTEN, Professor of Political Economy, University of Pennsylvania, and ALVIN S. JOHNSON, Tutor in Economics, Columbia University.

Fourth Session—Monday, December 29, 10 A. M.

PROBLEMS OF ORGANIZED LABOR.

1. The Union Shop. HENRY WHITE, Secretary United Garment Workers of America.
2. Free Shops for Free Men. WILLIAM H. PFAHLER, former President National Founders' Association, Philadelphia.
3. Discussion opened by SAMUEL B. DONNELLY, former President Typographical Union, No. 6, New York, and JOHN E. GEORGE, Assistant Professor of Economics, Northwestern University.

Fifth Session—Monday, December 29, 2.30 P. M.

AIMS OF ORGANIZED LABOR.

1. The Ideals of Trade Unions. Papers by GEORGE EDWIN MCNEILL, Boston, Mass., and FRANK K. FOSTER, Boston, Mass., Chairman of the Legislative Committee of Mass. Federation of Labor.
2. Discussion opened by SIMEON B. CHASE, Manager King Philip's Mill, Fall River.

Sixth Session—Monday, December 29, 8 P. M.

Second Joint Session with the American Historical Association.

1. Currency Problems in the Orient. JEREMIAH W. JENKS, Professor of Political Economy and Politics, Cornell University.
2. Discussion by CHARLES A. CONANT, Treasurer Morton Trust Co., New York, and G. BRUCE WEBSTER, New York Agent of the Chartered Bank of India, Australia, and China.
3. American Business Corporations before 1789. SIMEON E. BALDWIN, Judge of the Supreme Court of Errors of Connecticut.

MEMBERS IN ATTENDANCE.

J. S. Aburatani, Morton A. Aldrich, Abram P. Andrew, Jr., Foy S. Baldwin, Simeon E. Baldwin, George E. Barnett, Don C. Barrett, John S. Bassett, Charles Beardsley, John W. Black, J. Chester Bowen, Thomas E. Brown, Charles J. Bullock, Thomas N. Carver, Robert C. Chapin, Simeon B. Chase, Frederick C. Clark, John B. Clark, James W. Crook, Winthrop M. Daniels, Andrew McF. Davis, Michael M. Davis, Jr., Rev. M. Angelo Dougherty, Ernest F. Du Brul, E. Dana Durand, Franklin S. Edmonds, Richard T. Ely, Roland P. Falkner, Henry W. Farnam, Frank A. Fetter, George L. Fielder, John H. Finley, A. W. Flux, Henry J. Ford, Worthington C. Ford, J. Dorsey Forrest, Irvin A. Fort, Henry B. Gardner, John E. George, Nicholas P. Gilman, William H. Glasson, John M. Glenn, David I. Green, Edward T. Hartman, Edward M. Hartwell, Delmer E. Hawkins, Cheeseman A. Herrick, Joseph A. Hill, John A. Hobson, John T. Holdsworth, Jacob H. Hollander, Isaac Hourwich, Charles H. Hull, Maurice Jacobson, Jeremiah W. Jenks, Emory R. Johnson, Joseph F. Johnson, Gustav A. Kleene, Roswell C. McCrea, Logan G. McPherson, Frank L. McVey, Theodore Marburg, Webster Merrifield, Balthaser H. Meyer, Herbert E. Mills, Charles W. Mixter, Frederick W. Moore, Henry R. Mussey, Simon N. D. North, Robert B. Olsen, Simon N. Patten, Carl C. Plehn, George A. Plimpton, Jesse E. Pope, Herbert Putnam, William A. Rawles, William Z. Ripley, Edward A. Ross, Leo S. Rowe, Frank R. Rutter, William A. Schaper, John C. Schwab, Henry R. Seager, Edwin R. A. Seligman, Vladimir G. Simkhovitch, Albion W. Small, Ernest A. Smith, Delos DeW. Smyth, Charles W. Spencer, Rufus F. Sprague, Worthy P. Sterns, John L. Stewart, William G. L. Taylor, Charles H. Thurber, Reuben G. Thwaites, John L. Tildsley, C. W. A. Veditz, C. S. Walker, Lester F. Ward, George P. Watkins, Adna F. Weber, Philip P. Wells,

Max West, Horace White, Robert H. Whitten, George G. Wilson, Ambrose P. Winston, Stuart Wood, Allyn A. Young, James T. Young. Total, 110.¹

COUNCIL MEETINGS

The Council met Saturday, December 27th, at 8:15 P. M., at the University Club, President Seligman being in the chair. The Secretary's report was read and accepted. It is as follows:

REPORT OF THE SECRETARY TO THE COUNCIL OF THE AMERICAN ECONOMIC ASSOCIATION.

DECEMBER, 1902.

Two meetings of the Executive Committee have been held during the current year. At the first one, held in New York city, January 31, the Committee, acting in accordance with the authority given it by the Council, fixed the place of the present meeting. The questions referred to the Committee by the Council as to the appointment of special committees on local finance, on transportation, and on workingmen's insurance, and that of recognizing local chapters of the Association were discussed and action deferred. Carl C. Plehn, Professor in the University of California, was appointed chairman of the Committee on Index Numbers, and acting under the authority granted him he has appointed as members of his committee Irving Fisher and A. W. Flux. The policy as to the publications was discussed, and the chairman of the Publication Committee authorized to correspond with the members of the Council. It was agreed to submit to the Council the following

¹ Probably others present failed to register.

amendment to article VI, paragraph 2 of the Constitution :

" Article VI, paragraph 2 of the Constitution shall be amended to read as follows : It shall elect the President, Vice-President, Secretary and Treasurer ; the President, the Secretary, the Treasurer, and the Chairman of the Publication Committee, together with three other members, to be elected by the Council, shall constitute an Executive Committee, with such powers as the Council may entrust to it ; provided, however, that the offices of Secretary and of Treasurer may be filled by one person, and that the offices of Vice-President and of elected member of the Executive Committee may be filled by one person."

The second meeting of the Executive Committee was held in New York city, November 29th, to confer with representatives of the economic journals as to the future policy of this Association in the matter of its publications. A report will be made to this meeting on the results of this conference.

By vote of the Council, taken by mail, the Executive Committee was unanimously authorized to act as a committee on time and place, and to confer with a similar committee of the Historical Association.

During the present year 3 members of the Association died, 2 of them life members, 7 resigned, 18 were dropped for non-payment of dues ; of these last, doubtless, some had died, for it would appear to be but rarely in such cases that the Secretary is notified by friends, or members of the family, of the deceased. The total loss of members was 28. Two subscribers were lost. Since the last report 88 members have been added, one of whom was a life member, and 3 subscribers gained. One annual membership was

changed to a life membership. The net gain of members is 60; that of subscribers is 1, the total net gain being 61. At the date of the last report there were 950 members. The membership for the first time passes the thousand mark, being now 1011.

The publications have been much delayed during the year, greatly to the annoyance of the members, and adding appreciably to the burdens of the Secretary's office. The new Publication Committee entered upon its duties without any stock of manuscripts; and although copy enough was promised early in the year to provide completely, most of it was not available until almost the close of the year. Despite, therefore, the earnest efforts of the committee and the Secretary, No. 2 was not issued until October. Nos. 3 and 4 are now in the printers' hands. The total number of pages thus far published is 646, but the total number of pages for the year will approach 1100.

The Treasurer's account shows a balance of \$2,188.92, which appears to be several hundred dollars more than ever before at the date of the annual report. The lateness of the publications has delayed considerably the collection of dues which otherwise would swell the balance by several hundred dollars, while on the other hand printing bills for but three numbers have been paid during the current year.

The Secretary takes pleasure in reporting the evidences of continued and widening interest in the work of the Association that appears in many ways in the voluminous correspondence which comes to his hands.

Very respectfully submitted,

FRANK A. FETTER,
Secretary.

The report of the Treasurer was read and referred to the Auditing Committee.

TREASURER'S REPORT.

FRANK A. FETTER, Treas.,

*In account with the American Economic Association
for the year ending December 24, 1902.*

Debits.

Cash on hand from last report.....	\$ 1,522 42
Sales and subscriptions,	
The Macmillan Company.....	\$328 20
Secretary	390 66
	718 86
Reprints	56 07
Life members, dues (2).....	100 00
Annual dues	1,923 20

Credits.

Expense of publications.....	\$ 1,525 86
Expense of President's office.....	84 60
Expense of Sec. and Treas. office.....	421 23
Expense of 14th annual meeting	99 94
Balance in cash.....	2,188 92
	<hr/>
	\$4,320 55 \$4,320 55

The amendment to article VI, section 2 of the Constitution, which had been referred to the Executive Committee and reported favorably, as noted above in the Secretary's report, was adopted unanimously by the Council and referred to the regular meeting of the Association in accordance with Article VII. (At the open meeting Monday afternoon, December 29th, the amendment was unanimously adopted.)

The report of the committee on time and place, made by President Seligman, in favor of holding the next meeting in New Orleans, in conjunction with the American Historical Association, was unanimously adopted.

Invitations were presented to the Association to meet

some time in the future at Berkeley, Calif.; Minneapolis, Minn.; Madison, Wis.; Indianapolis, Ind.; Evanston, Ill.; and Baltimore, Md.

On motion of A. W. Flux, authority was given to the Executive Committee to act as a committee on time and place, such authority to be continued until further notice by the Council.

On motion of J. C. Schwab, the President was authorized to appoint committees of the usual size on nominations, resolutions, and the auditing of the Treasurer's accounts. The following committees were appointed: on nominations, Ely, Carver, Daniels, Farnam, Flux, Plehn, W. G. L. Taylor; auditing committee, Durand, A. F. Weber, Pope; on resolutions, Seager, Ross, Gardner.

The adjourned meeting of the Council was given to a discussion of the policy as to publications. A motion was adopted looking toward coöperation with other agencies for the encouragement of scientific studies in economics, and one to appoint a committee to report on the feasibility of enlarging the field of the publications.

The third meeting of the Council was held in Houston Hall, Monday, December 29, at 10 A. M. The report of the nominating committee was as follows: President, E. R. A. Seligman; Vice-Presidents, W. W. Folwell, L. F. Ward, and F. W. Moore; Secretary and Treasurer, F. A. Fetter; elected members of the Executive Committee, C. J. Bullock, W. M. Daniels, W. Z. Ripley; members of the publication committee, D. R. Dewey and W. A. Scott. On motion, the Secretary was authorized to cast a single ballot for these nominations after the proposed amendment to the constitution should have been adopted in open meeting.

Members of the Council whose terms expired in 1903

were renominated. The following were nominated as new members of the Council with instructions that the Secretary distribute them by lot so as to equalize the three classes of the Council: Edward T. Peters, Worthy P. Sterns, William B. Bailey, Don C. Barrett, Thomas W. Page, Foy S. Baldwin, Vladimir Simkhovitch, Charles Beardsley, William H. Glasson, Morton A. Aldrich, J. Dorsey Forrest, Abram P. Andrew, and Charles W. Mixter.

The report of the auditing committee was presented as follows: The Auditing Committee appointed to audit the accounts of the Secretary and Treasurer of the American Economic Association for the year 1902 report that they have carefully examined the account books, bank book, and vouchers of the Secretary-Treasurer's office, and that they find them correct and satisfactory in every particular.

E. DANA DURAND,

ADNA F. WEBER,

JESSE E. POPE.

The following motion by E. D. Durand was carried: Moved that the Executive Committee be requested to consider the proposed appropriation for the investigation by the Library of Congress of comparative legislation, and, if it deems wise, to memorialize Congress in favor of this appropriation. The Council then adjourned.

RESOLUTIONS

The committee on resolutions made its report at the session of Monday afternoon, which was unanimously adopted, as follows:

Resolved, That the American Economic Association

desires to express its appreciation of the cordial reception extended to it at its Fifteenth Annual Meeting in the city of Philadelphia, and to thank the members of the local reception committee and especially Dr. Joseph Wharton, chairman, and Prof. L. S. Rowe, its secretary, the Provost, Trustees, and Faculties of the University of Pennsylvania, the President and Trustees of the Drexel Institute, the Boards of Managers of the Manufacturers' and University Clubs, the President Trustees of the Historical Society of Pennsylvania, J. G. Rosengarten, Esq., Trustee of the University of Pennsylvania, and Professor and Mrs. Lindley M. Keasbey, of Bryn Mawr College, for the many courtesies enjoyed by its members.

Resolved, That the Secretary be requested to transmit a copy of this resolution to the organizations and individuals named.

[Signed]

H. B. GARDNER,
E. A. ROSS,
H. R. SEAGER,
Committee.

PAPERS AND DISCUSSIONS

ECONOMICS AND SOCIAL PROGRESS

PRESIDENTIAL ADDRESS BY EDWIN R. A. SELIGMAN

Economic science is an outgrowth of economic conditions. It is a product of social unrest. From the earliest discussions of classical antiquity, from the first faint glimmer of truth in mediæval speculation, from the elaboration of complete systems of thought in the eighteenth century, down to the recent renaissance of scientific enquiry in the western hemisphere, each step forward in economic analysis has been the result of an attempt to unravel the tangled skein of actual conditions, and of an effort to solve the difficulties of the existing industrial society. Consciously or unconsciously the teleological element has presided at the birth and has accompanied the growth of all social speculation. "What ought to be" has ever been the spiritual father of "what is."

It is not intended, of course, to deny the existence of the independent search for truth for its own sake. On the contrary, in economics, as in every other scientific discipline, the highest flights of the intellect have been in the tenuous and serene atmosphere of pure reason, far above the turbid waves and windy surface of every day discussion. It would ill behoove the president of an association like this to say aught in disparagement of the fearless and unselfish quest for truth for its own sake. Amid this onward sweep of material progress and this tidal wave of mere brutal bigness which threatens to engulf us all, nothing is more needed than to cling to the

stake of principle and to hold fast to the sheet anchor of unprejudiced and undaunted conclusion. The so-called theorist has a heavy and often undeserved load to bear. The term is redolent of condescension ; it smacks of contempt. And yet, if the theory is what the word implies, if it is a real exposition, a true statement of the necessary relations between facts, then no matter by what method it has been reached, no matter how unlikely it may seem or how unwelcome it may be, it rests upon a bed of adamant and will endure forever. To seek such an explanation, to attain such a result needs not only the most unremitting ardor, but often the most intrepid resolution.

The point, however, that it is desired to emphasize here is that the facts of which an explanation is sought must be chosen with discrimination. If the facts themselves are really insignificant, the theory, no matter how true, cannot fail to be trivial. The minor writers on economics have, unfortunately, far too often dissipated their energies on such trivialities, and have, as a consequence, sunk to the depths of scholasticism and mere logomachy. If economics is to be of any real service, it must deal with the important phenomena of economic life. The great thinkers in our domain, however elevated their view, however recondite their processes of thought, have always stood on the firm foundation of basic social relations. To whatever extent, for instance, we may be tempted to disagree with the methods or the conclusions of Ricardo, there is no doubt that the problems which engaged his attention were entirely worthy of so acute and so profound a mind. However abstract the mode of treatment, however unfinished or fragmentary the results, however remote the argument from the habitual and narrow considerations of the market place,

the topics in which the great economists of the past delighted were of a vital and engrossing character, and constituted the real, though often hidden, core of the controversies of the day.

If, then, economic science finds its justification in the significance of economic facts, if it owes its origin and its fruitful development to the storm and stress of actual life and to the inharmonious play of social forces, it may be worth while to consider somewhat more closely the relations between economic thought and social progress.

In the first place we must emphasize anew the essential relativity of all economic thought and all political doctrine. The philosopher indeed loves to elaborate the eternal principles of order and harmony, and seeks to give all mundane things their fixed place in the cosmic scheme. With this the economist has no quarrel. His work is the less ambitious one of seeking to put various phases of the social activity of man in their due perspective, to estimate the real import of the economic motive in its actual working out amid the myriad manifestations of the social mind. In the narrower controversies as to the nature of economic law, the battle between absolutism and relativity has been virtually won. Most thinkers are now willing to concede that however accurate may be the conception of inviolable law and however legitimate may be the inclusion of economic principle in this category, the law holds good only so far as the conditions remain constant. With the perpetual change in at least some of the relations of social life, the economic law is often applicable only to the particular stage of industrial development, and becomes a provisional and relative, rather than an absolute, explanation. But while the principle of relativity is now

widely recognized, many implications of the older theory still survive, and continue to exert a baneful and constricting influence.

Take, for instance, the opinion either explicitly or implicitly shared by many of our thoughtful fellow citizens that this country has in some way a distinctive mission to perform, and that we are marked off from the rest of the world by certain inherent principles, relative indeed, in the sense of being peculiar to America, but eternal and immutable in their relation to ourselves. Now I certainly do not desire to depreciate the advantages of patriotism, or to impeach the unquestioned influence of nationality. Nations, like individuals, differ from each other in countless respects, and each has doubtless some peculiarity of endowment which is lacking in the other. Rivalry between nations, like competition between individuals, is an essential factor of all social progress. The friction of commercial and intellectual intercourse, notwithstanding the sanguinary struggles by which it has often been attended, has proved to be the most potent influence in generating and spreading the light of civilization. To disparage the facts and the force of nationality were futile indeed. And as with nationality, so with patriotism. Nations, like individuals, must respect themselves if they desire to be respected by others; and if they seek to accomplish anything enduring, they must have an ardent faith in their own strength and their own powers of progress. To minimize the value of patriotism and its abiding beneficence would be shortsighted in the extreme.

But how often are the claims of nationality pushed to an extravagant and unwarrantable length! We have indeed learned to put in their proper setting the conten-

tions of the "chosen peoples"; and we regard the attitude of the ancient Jews and of the classic Greeks toward gentile and barbarian respectively as the perfectly explicable, but none the less culpable, result of an overweening pride and vainglory, buttressed in the one case by the all-pervading power of religion, and in the other by the fanciful supports of ancestry. We can with difficulty repress a smile of amusement when confronted to-day by the rival demands of those mighty monarchs who still profess to rule by "the grace of God," and who are unwilling to submit their differences to the arbitration of anything less than the "manifest destiny" of their own flesh and blood. We are even ready at the present time in the matter of international morality to concede that while there is a beam in the eyes of our neighbors, there may possibly be at all events a mote in our own.

When, however, we come to a consideration of economic phenomena and their influence on our social and political fact and theory, we do not recognize that we have been largely living in a fool's paradise. We think with complacency that there is something inherent in our democracy; we look back upon the achievements of our colonial struggles as the obvious consequence of the Puritan character; we congratulate ourselves upon our love of liberty, our inventive ingenuity, our unexampled prosperity. What we do not see is the essential relativity of all these phenomena, the dependence of them all on the shifting conditions of time and place.

New England indeed developed its democracy and its town meeting. But the town meeting had its prototype in the woods of Germany, on the steppes of Asia, and in fact in all primitive assemblages; while the democracy was the result, not of the Puritan ancestry, but of the

economic conditions. The Puritans had nothing to do with the beginnings of democracy in the mediæval communes, or with its development amid the Alps of Switzerland or the dunes of Holland; and the same Puritans were unable to put on a firm foundation at home the democracy which they easily established in the new world. So it is with the love of liberty and individualism. Liberty is always the concomitant of economic equality, or at all events of the equality of economic opportunity. When this equality was almost from the outset excluded, as in the South through the pressure of an economic environment based on an abundance of free soil, well suited to an extensive and quasi-tropical tillage, the result was a disappearance of liberty for all but the governing class. It took but a few generations for the sturdy and liberty-loving patriots of England and Scotland to become sincere and devoted believers in the necessity and the beneficence of slavery.

The so-called Anglo-Saxon love of liberty went the way of the old Roman boast of freedom when the world conquests, with their supply of fresh land, made slavery an economically profitable system. What a ghastly mockery that the proud assertion in our Declaration of Independence as to all men being born equal and with the natural right to liberty should be signed by so large a proportion of slaveholders!

And what shall we say of the boasted Anglo-Saxon individualism? How does it happen that the Englishman, leaving his moist and fertile home for the arid and barren wastes of the antipodes, becomes, if not a socialist, at all events the next remove to one? Why is it that in Australia we find the government railroads, and the government insurance, and the government steamship, and the government frozen meat industry, and the

dozen other examples of government activity which would be greeted with dismay in the mother country? Is it not clear that the individualist theory in America is the product of definite economic conditions in the nineteenth century? What careful interpreter of American history does not know that the arduous struggles with a rebellious soil and an inhospitable climate caused the American of a century ago to turn to government whenever he thought he might secure help? State roads, state canals, state railroads, state bounties, state enterprises of all kinds suited to the needs of the settlers were the order of the day. But when the mountains had been crossed and the fertile valleys of the Middle West had been reached, there came a wondrous change. Conscious of their new opportunities, the citizens now desired only to be left alone in their quest for prosperity. Private initiative replaced government assistance, and the age of corporations was ushered in. Insensibly the theory of governmental functions changed, and the doctrine of *laissez faire* carried all before it. Never before and in no other country did the theory of individualism take such hold of an entire people, because never before had the economic conditions been quite so favorable.

And at the same time individualism was reinforced by democracy. Colonial New England was indeed a democracy; but toward the end, owing to a changing economic environment, we notice the traces of an aristocratic development, culminating here and there in the dependence of suffrage itself on property qualifications. But now the broad plains and fruitful valleys of the Middle West, amid which slavery was economically unprofitable, and therefore politically impossible, produced an environment so favorable to democracy that its influence

soon spread throughout the entire North. It was this combination of democracy and individualism which slowly became strong enough in its economic basis to throw down the gauntlet to the opposite economic system of the South, and finally to emerge victoriously from the contest.

With the unification of the system and the supervening change of economic conditions, the content of our democracy is changing and the theory of extreme individualism is passing away.

Do you not see, then, that there is nothing inherent in the fundamental characteristics of our Puritan past? Do you not recognize the fact that the history of colonial New England is but an episode in the drama of humanity, a mere interlude in the play of society? Its strength and weakness alike are the results of a contact between a fairly civilized mental attitude and a primitive economic environment. In such a contact the environment in the long run becomes the potent factor. American history, therefore, has been the history of national infancy. To predict a future which shall be a necessary development from our early past would be as childish as to explain the conditions of Roman imperialism from the facts of the pre-republican age. While the stubborn racial characteristics must indeed not be overlooked, the American of the future will bear but little resemblance to the American of the past. To forecast the coming social transformation in our country without bearing in mind the fundamental change in the economic conditions were puerile indeed. Relativity, not absolutism; change, not permanence, is the watchword of all social, political, and ethical progress.

An economic analysis based on changing conditions is therefore of the utmost possible service. And if con-

ducted skillfully it would, I feel convinced, bid us be of good cheer and help us face the future with hope and confidence. The fundamental problem connected with social development is after all this: Whither are we tending? What lessons have an economic interpretation of the past and of the present to teach us in our guidance for the future? What are the forces that are making for progress or retrogression?

There is no blinking the fact that many give a pessimistic answer to these queries. They call attention to the increase of luxury and of materialism. They look with suspicion upon what they term the growing plutocracy and the new feudalism. They point to the warning example of the oriental monarchies of classic Greece and Rome, and tell us that in our case, too, the period of unquestioned prosperity which is now upon us will inevitably be followed by one of decay and final dissolution. What has been, will be. There is nothing new in human affairs.

I venture to affirm, however, that a more discriminating study would disclose the existence of several factors inattention to which is largely responsible for this gloomy and despondent attitude, and that, on the contrary, the outlook is not dark, but promising indeed.

Without attempting in this place the impossible task of a complete analysis, I venture to call your attention to six points which differentiate modern industrial society from all its predecessors. These are: first, the practical exhaustion of free land; second, the predominance of industrial capital; third, the application of scientific methods; fourth, the existence of a competitive régime based on the newer conception of liberty; fifth, the spread of education and the birth of a distinct public opinion; sixth, a true democratic spirit and the

growth of a new idealism. What is the real import of these factors?

First, the virtual disappearance of free land. This makes slavery forever impossible in the future. Recent investigations have proved beyond the peradventure of a doubt that slavery as a typical economic system is ascribable to the existence of vast quantities of untilled tracts suitable for agriculture. Where any one can procure fresh land for nothing, he will not readily work for another; and when the soil is so exuberantly fertile that it can endure the wastefulness of slave cultivation, compulsory and not voluntary labor will be the dominant characteristic of the production. Slavery did not become important in Greece until the colonies yielded vast stretches of virgin land; the yeoman farmer in Rome did not disappear until the world conquests of the later republic threw into the market such prodigious supplies of new territory as to make slave labor on the large estates lucrative. It was precisely the same cause that produced slavery in the West Indies and on the American continent. Those days, however, have gone, never to return. Fresh supplies of that kind of land are with insignificant exceptions no longer procurable. The older countries are quite filled up, and in the newer sections conditions are unfavorable. In both Australia and Siberia the climate is inimical to slavery. In South America the pampas are the home of a grazing rather than of an agricultural community, and it is well known that the flock tending and herding life is not conducive to slavery on a large scale; on the other hand, the agricultural regions of South America have realized that slave production is inadequate to meet the competition of free labor in the world market where their products are sold. It is only in the mining districts of South

Africa and in the tropical islands of Asia that the conditions are still favorable to slavery. Were they to form so controlling a part of the empire as in former days in the colonies of Greece and Rome, the present struggle in England, Holland, Germany, and the United States to solve the labor problem in the dependencies without recourse to compulsion would be far less likely of accomplishment. It is because the entirely different economic systems and consequent social ethics of the mother countries are now the potent factors in the world that we can confidently look forward to the speedy passing of slavery in every part of the globe. Morality, indeed, is doing its noble work, but at bottom lies the disappearance of free land.

Secondly, the predominance of industrial capital. Some thinkers, from Phaleas of old to the Henry George and Loria of to-day, ascribe all our social troubles to landed conditions. Others, like Demolins in France and Brooks Adams at home, tell us that the commercial route is the secret of prosperity and decadence. There is a certain degree of truth in each of these contentions as an explanation of the past. Both classes of thinkers, however, fail to recognize the essential changes brought about by modern industrialism. The conditions of landholding undoubtedly played a dominant rôle in Rome, as they did in feudal Europe and colonial America. The control of the trade routes was assuredly the chief factor in the rise and fall of the oriental monarchies, of the Greek city states, of the Italian and German towns, of Portugal and Spain. But why is this? Clearly because of the absence of industrial capital. In the one case the economic system was based on the ascendancy of land as a factor in production; in the other case on the equal or even superior force of commercial capital.

In the strict scientific sense, capital has indeed existed from the time of the first hunter's bow and arrow. But for practical purposes and for real aid in solving actual problems, the common man is perfectly justified in calling this the capitalistic age, just as Karl Marx was entirely correct in employing the word "capital" to describe the essential modern phenomenon. The economist calls attention to the fact that capital in the generic sense may be put into land, into trade, or into industry; but to the interpreter of social forces the typical form of capital to-day is industrial capital, as in feudal times it was landed capital, and as in so many civilizations of old it was trade capital. We have only lately been reminded that classic Greece, for instance, had its beginnings, its middle ages, and its modern times. But in ancient Greece, even at the height of its power, slave labor was the chief factor in production, and industry was predominantly of the small, non-capitalistic type. Again, the mediæval guild system of industry was in almost every respect a contrast to our modern régime. The land problem is no doubt still important in a country like ours where seventy per cent of the exports are agricultural; the commercial problem is still important in a country like ours which is seeking to secure its share in the trade of the newly opened Orient. But were we to read the signs aright, we should realize that in our case, as in that of all our great competitors, the secret of ultimate success is to be sought, not in the land question, not in our trade relations, but in the fundamental conditions of industrial enterprise at home. Industrial capital as distinct from agricultural or commercial capital is a product of modern times; it has never before existed as the tone-giving element of society; it is destined to produce very different conse-

quences. Agricultural capital and commercial capital have been responsible for the landed and trading aristocracies of the past; industrial capital correctly analyzed and rightly controlled means not industrial aristocracy, but industrial democracy.

Thirdly, and intimately connected with what had just been said, is the modern application of scientific methods to industry. We speak glibly of the recent progress of science, but few realize the true import of this growing subjection of nature to man, and of the revolutionary character of this harnessing of the powers of the universe to the yoke of the human intellect. For one thing it has made possible an almost limitless increase in production. Landed capital, under the non-scientific methods of the past, was able to go so far and no farther. Even when extensive methods of agriculture were replaced by the intensive systems, the operation of the law of diminishing returns soon made itself felt, and marked a limit beyond which advance was impossible. The advent of commercial capital indeed increased prosperity, and to the extent that exchange is really a phase of production augmented the productive power of the world. But here again its efficiency was limited within narrow bounds. Creating new values simply by the bartering of existing values, the pyramid of wealth rested on the basis of the actual production within each community, and could not be piled up beyond a certain height. But with modern industrial capital and the snatching from nature of her intimate secrets, the utilization of natural resources within each country has become almost boundless, and provides an ever broadening base for the benefits of trade and commerce.

It is for this reason that the history of the world in the future is to be so different from the past. In former

times, after a certain point had been reached in agriculture and commerce, human ingenuity was powerless to do more than divide existing wealth; and with this fixed limit to production, it is no wonder that each civilization in turn should have attempted to secure the prize for itself. Hence the rise, the glory, and the decline of nations. In future, however, in lieu of dividing existing wealth, each nation which lives up to its opportunities will be able to create new wealth. For we must not forget that science is not only boundless in its possibilities, but impartial in its activities. Science transcends all national lines. Never again will a country be able to achieve or to retain a monopoly of industrial advantages. For the time being, indeed, climatic conditions or racial characteristics may give one nation a temporary preponderance in some particular category of production; but with the overwhelming importance of new industrial methods applicable impartially to all natural forces, the advantage cannot be permanently retained.

We are accustomed to speak of the economic and social changes brought about by the alteration in the media of transportation and the growth of the world market; we do not yet realize the full implication of the industrial revolution. Rightly conceived it means the coming internationalism of mighty empires, in friendly competition with each other, not for the division of what exists, but for the utilization of what can be made to exist. For the immediate future, indeed, while nations are still in unequally developed stages of industrial growth and while there remains extended markets not yet on the highroad to industrial predominance, there will still be some room for the nationalism of the old type with its protective features and its commercial struggles. In these contests we must undoubtedly take

our part. But with every decade's progress in science the conditions will change, and the old nationalism of exclusiveness will melt into the new cosmopolitanism based upon the continual progress of each great and economically homogeneous community.

The fourth characteristic of the modern age is the development of the competitive régime. This needs but little more than a mention. Several of the former presidents of this Association have made you familiar with the real meaning of competition. They have pointed out that a competition of the right kind is a necessity to social progress—that progress consists not in doing away with competition but in raising it to a higher plane; not in suppressing it, but in preserving and extending it, while substituting a loyal for a disloyal rivalry. What often seems to be the crushing of competition is in reality the replacing of a lower by a higher form. The trade-union movement, for instance, with the progress from individual to collective bargaining, seems from one point of view to lessen competition, but no one who understands the real philosophy of the movement can doubt for a moment that on the whole it makes for a truer and more perfect competition based on the equality of the contending forces. The trust seems to be the very negation of competition, and yet if the conditions of loyal and healthy enterprise are insisted upon, and the trust be not permitted to take advantage of a legal code lagging behind the economic development, the net results of the movement may well prove to be the sloughing off of the evils of a lower competition and the attainment of a higher form of emulation.

It is precisely here that the force of the fifth factor becomes apparent, the emergence of a true public

opinion to bolster up this demand for the retention and strengthening of the right kind of competition. In antiquity political and social opinion was a class opinion. In the middle ages the incoherent public opinion was intolerant to competition. In modern times the progress of economic thought and the pressure of economic fact in uplifting the hitherto submerged classes of the community are generating a public opinion which frankly recognizes the benefits of a healthy competition, but which insists more and more on effective social control of competition to the end that it be elevated and purified.

This is the true meaning of the sixth point of difference,—the flower and the fruit of all its forerunners,—the existence of the democratic ideal. We point, indeed, with complacency to the advance made by the working classes, but to those who realize the essential conditions of successful democracy, where the mass of citizens are necessarily the laborers, the ideal to be attained advances still more quickly than the actual progress. The brutish, lethargic peasant of the old world is content with his crust and his misery. The free citizen of our industrial democracy wants, and wants justly, to participate in the spiritual as well as the material benefits of modern civilization. With every advance in his economic position, due to the interplay of modern industrial forces, new vistas of possibilities disclose themselves, new sources of legitimate satisfaction make their appearance. The social unrest of to-day, with all its disquieting and deplorable incidents, is on the whole a salutary symptom. It is but the labor-pains in the birth of the new industrial order which has been in the making for the past few generations, and of which the faint outlines are even now discernible.

A study of the economic forces now at work thus justifies a reasonable hopefulness. The productive powers of society are augmenting at such a prodigious rate that we need no longer apprehend a decay of general prosperity or of natural power. There is to be no further irruption of the barbarian, because there will soon be no more barbarians. There is to be no swinging back of the pendulum of civilization, because under the influence of the new economic forces only those nations can succeed that understand how to utilize industrial capital, and this comprehension implies an ever ascending stage of civilization. There is to be no domination of each nation in turn over all the others, because of the internationality of science and the impartial territorial diffusion of industrial agencies. And within each nation, while the rich are getting richer, the poor are not getting poorer. The creation of a more equable, because a more perfect, competition through the development of the system of collective bargaining and the more adequate supervision of monopoly; the recognition on the part of the legislator that lasting prosperity depends not only on the conservation and free play of capital but on the gradual elevation of the laborer from a cheap man to a dear man; the coming social control of competition itself in the interests of a more enlightened and hence really freer rivalry,—all these will inevitably tend to secure to each class in the community its proper share in the national dividend.

This is not fatalism. This is not the preaching of "hands off." Far from it! Man is a product of history, but history is made by man. Modern economic forces indeed provide new opportunities for all. But whether the correct use be made of the opportunities depends on the wisdom, the energy, the capacity of each individual,

of each social class, of each community. The economic life is the basis of social progress, but the economic environment which conditions this life is fast becoming an artificially created environment. In the creation of this environment there is a continually growing sphere for the conscious activity of the social group. With the subordination of the individual to the social interest, to the advantage of individual and society alike, there is an ever enlarging field and ever more pressing need for the wise regulation which will ensure a more even, a more equable, and a more harmonious development.

Economic theory, therefore, has a progressively important rôle to play in the future. With the commanding significance of the economic life in its influence on social progress, economics, in pointing out exactly what is, will inevitably concern itself with what ought to be. If the economist is the real philosopher of social life, he will take a more notable part in future speculation and future legislation. The different social classes, by reason of their very being, see only the particular, not the general interests. The farmer understands the workings of Wall Street and the factory hand comprehends the condition of the world market as little as the capitalist realizes the true ideals of the laborer. To let any one class act as spokesman for the other is pregnant with danger. The economist, if he is worthy of his calling, will proceed without fear or favor; he will be tabooed as a socialist by some, as a minion of capital by others, as a theorist by more; but if he preserves his clearness of vision, his openness of mind, his devotion to truth, and his sanity of judgment, the deference paid to his views, which is even now beginning to be apparent in this country, will become more and more pronounced. The influence of economic

conditions on economic theory has been, let us hope, abundantly demonstrated ; but the reciprocal influence of economic theory on actual conditions is in danger of being overlooked. For as the science itself becomes more and more complete, it alone will be in a better position to apprehend and to explain the real content of existing conditions and the true method of making the actual conform to the ideal. Natural science necessarily moves within the framework of natural forces, but he who runs may read the lesson of the control of these same natural forces through modern scientific achievements. So in the same way economic science, which is to-day only in its infancy, and which of all disciplines is the most difficult and the most complicated, is indeed interlaced with and founded upon the actual conditions of the time ; but, like natural science, the economics of the future will enable us to comprehend the living forces at work, and by comprehending will put us in a position to control them and to mould them to ever higher uses. Economics is therefore both the creature and the creator. It is the creature of the past ; it is the creator of the future. Correctly conceived, adequately outlined, fearlessly developed, it is the prop of ethical upbuilding, it is the basis of social progress.

NATIONAL REGULATION OF RAILWAYS

CHARLES A. PROUTY

I am asked to prepare a paper upon national regulation of railways in the United States. There is none. There is state regulation to some extent, and national supervision which is of value. Regulation implies control; and there is and can be no control by the government over interstate transportation until some method is adopted to supervise and correct railway rates. It is to this proposition that I invite your attention.

Five years ago the crying evil in railway operations was discrimination, mainly discrimination between individual shippers. While many rates were too high, the general level was low; and in view of competitive conditions which had for some time and then existed, little apprehension was felt of any general unreasonable advance. Not so to-day. The vast consolidations of the past few years; the use of injunction to prevent departures from the published tariff; the lesson which railroad operators themselves have learned, that competition in rates is always suicidal, since it does not increase traffic and does reduce revenues,—these have largely eliminated that competition. The discrimination is disappearing, but in its place comes that other danger which always attends monopoly, the exaction of an unreasonable charge.

As the formation of these combinations has proceeded, the public has been repeatedly assured that there was no danger of any advance in freight rates. The absurdity of this has been evident from the first to all thinking

men, and is at last becoming patent to the unthinking. Less than one year ago Mr. Harriman, in testifying before the Interstate Commerce Commission as to the unification of interest in transcontinental lines, stated that the tendency of such consolidations was not to advance, but rather to reduce rates. Within the month the vice-president and chief traffic officer of another transcontinental line has declared in a published interview that all rates west of the Missouri River must be advanced 10 per cent, and to the same purport is the general utterance of railway authority elsewhere.

Louder than words speaks the thing done. In the winter of 1899 the grain rate from the Mississippi River to New York fell to 12 cents per 100 pounds; to-day it is 22½ cents. During the summer of 1902 the cost of carrying corn from the Middle West to the seaboard increased from 10 to 20 per cent over what it had been the previous season. Within this present month advances in grain rates have been put into effect which amount in all directions from 2 to 5 cents per 100 pounds, and these advances can now be made and maintained because the competition which formerly prevented has been placed under restraint.

Few people appreciate the significance of these slight increases. While almost nothing as applied to a single hundred weight, they are enormous in the aggregate. On the 1st of January the rate on grain from Buffalo to the seaboard and corresponding points is to be raised one cent per bushel. This slight advance, as applied to the average quantity of grain moving through Buffalo for the last ten years, would amount to \$1,500,000 annually. The Interstate Commerce Commission has just decided, after extended investigation, that a recent advance in rates on hay was unjustifiable and that the rate

should be restored. No attention has been or will be paid to this decision, since there is no way in which it can be enforced ; but let it be noted that the testimony in that proceeding shows that this increase costs producer and consumer in the territory to which it applies approximately \$2,000,000 annually. There are now pending before that Commission complaints for investigation which demand reductions aggregating perhaps \$15,000,000 annually—equal, upon a 4 per cent basis, to a capitalization of about \$400,000,000—nearly the railway capital of all the railroads of New England.

A still more important inquiry to the economic student of this subject is, Who pays these vast amounts and to whom are they paid? By way of answer to this we may consider the anthracite coal situation.

Within the last three years some sort of combination or arrangement between the six or seven railroads which carry from the mine all the anthracite coal in the United States has been effected by which competition, both in the mining and in the carrying, has been practically eliminated. The effect of this had been, before the breaking out of the last strike, to increase the price of this commodity in domestic sizes to the consumer from fifty cents to one dollar per ton, often more. At the same time, from July, 1898 to July, 1902, the stock of the Reading road alone, the largest coal mining and coal carrying factor, increased in value \$45,000,000—about 300 per cent. The present rate on anthracite coal from the mine to Washington, a distance of 240 miles, is \$2.00 per ton. Bituminous coal is carried corresponding distances in the West for \$1.00 per ton. Complaint is made that the rates now charged by these anthracite coal roads are extravagantly high in all directions. Without expressing any opinion that this is the case,

let us assume for a moment that the rate from the mine to the consumer is 50 cents a ton too great. About 50,000,000 tons are produced and marketed annually, and upon that theory someone is paying \$25,000,000 more than ought legitimately to be exacted. Who is that "somebody"?

Plainly it is not the producer, for the coal is sold f. o. b. at the mines, and the greater part of it is sold by the railways themselves. Equally plain is it that the buyer of that coal, the local dealer, does not suffer from the extravagant freight charge, for although he pays the money in the first instance, he adds his freight to the cost of his coal. Indubitably the consumer pays this charge. And who are the consumers of anthracite? The whole body of the people. It is the poor man's fuel; if by chance it is used to generate power for the movement of an electric train, still the poor man for the most part patronizes that train. This excessive tax in the ultimate analysis is paid largely by the poverty of this country.

And to whom is it paid? To the owners of railway stock, and they, generally speaking, are the rich and the very rich members of society. Many railway stocks are widely distributed. The cause of the widows and the orphans who own them is often touchingly presented by the attorneys of these railway operators; but, speaking generally, those stocks which profit by these combinations, by the excessive rates which these combinations can impose and maintain, are owned by the excessively wealthy. The widows and the orphans obtained but a small share of the \$45,000,000 which the manipulators of the common stocks of the Reading road have made.

All this is no reason why railway property should be treated unjustly. It simply shows that the railway, the

railway combination, is one of the most subtle and dangerous instrumentalities in effecting an unjust distribution of wealth by taking from the poor man wrongfully and giving to the rich.

Put alongside this the fact that these combinations have been effected and that this tax is imposed by *quasi* public servants, by corporations in the discharge of a public function and endowed by the government with extraordinary privileges in the discharge of that function. Read the words of that great constitutional lawyer, Mr. Justice Bradley, in speaking of the right to control railway charges: "But a superintending power over the highways and the charges imposed upon the public for their use always remains in the government. This is not only its indefeasible right, but is necessary for the protection of the people against extortion and abuse."

Let it be further noticed that the remedies for monopoly which are just now occupying the public attention have been already tried here and failed. The act to regulate commerce insures the widest publicity for all the operations of railways, but that has not and cannot prevent the imposition of unreasonable rates. Some years ago the Supreme Court of the United States decided that the Sherman Anti-Trust Law applied to the operations of inter-state railways, and forbade all agreements between them for the establishment or maintenance of rates. It was believed at the time that this was a deliverance from railway monopoly. Its only effect so far has been to intensify that monopoly.

Mr. Harriman, in his testimony previously referred to, suggested that the public was protected by the fact that any shipper could sue and recover what he had paid beyond a reasonable rate. Apply this to the coal situation. The dealer pays the freight, but he will not sue,

for he can recoup himself from his customer. The consumer himself cannot sue, for he pays no freight ; but even if he could, what remedy would be afforded by the right of each individual to recover at the end of a lawsuit from two to fifteen dollars per year ?

To-day with respect to interstate transportation, and that is the great body of all transportation, the public has no safeguard against railway monopoly. It should have, and there can be but one. In some manner just to all parties the government must exercise its right to supervise the rate, must compel these carriers to impose in the first instance a reasonable charge. The real question is, By what means shall this be accomplished ?

It cannot be done through the courts. The functions of our government are divided into the executive, the legislative, and the judicial, and these functions must, under the Constitution, be kept separate. The Supreme Court of the United States has determined that the prescribing of a railway rate for the future is not a judicial function and cannot be discharged by the courts ; that it is legislative and must be exercised either by the legislature directly or by some commission created by the legislature. It will hardly be suggested that Congress could directly supervise the interstate railway rates of this country. Hence the only practical method is by the use of a commission. I am not discussing now the powers of the Interstate Commerce Commission. There is too little of that power to admit of intelligent discussion. I wish rather to inquire what should be done if no such body were in existence.

Such a commission should not make interstate railway rates. So long as railways are private property they should have the right to name their rates in the first instance, to determine what competitive conditions they

will meet, what industries they will foster, what will be, in general, the policy of the road. When those rates have once been made the government should inquire whether they are just and reasonable, and if found unjust and unreasonable should change them.

Such a tribunal is not a court. The court is for the trial of causes. A commission should go further and investigate as well. In court the plaintiff presents his complaint, the defendant makes his answer, the parties produce their proofs, and the judge and jury hear them and decide the issue. That issue usually concerns only the immediate parties to the trial. Not so with these rate questions. They almost invariably touch the whole community as well as some individual complainant, and it is unreasonable to expect that a single individual will sustain the burden of prosecution for the benefit of all. Look once more at our coal rate. The number of dollars which this excessive charge would take from the ordinary consumer is insignificant; but the issue to the carrier is of enormous consequence, and would be bitterly contested. Is it reasonable to expect that a single consumer will bear the burden of litigating that question, first before a commission, then before some appellate body, and finally before the Supreme Court of the United States? It is clear to my mind that the government itself, which represents the whole public, should assume the burden of that trial. The commission must be, in a way, both an investigating and a deciding body.

Note another most important difference. A court administers the law as it is laid down in statute or in precedent, the jury decides the fact upon the testimony of witnesses. Not so the commission. Here is no precedent to be administered. No dispute generally arises as to the facts. The question is, What under these ad-

mitted conditions shall be done? and this question is largely one of judgment.

Such a commission should be an expert body, composed of the best men obtainable, and occupied entirely in the consideration of such matters. It should obtain the fullest possible information. It should hear all any one desires to say, but when this has been done its conclusion must still rest in the good judgment of its members. Its decision is the act of an expert body; and just in proportion as the members of that body have had experience, just in proportion as they are men of honest, mature, and independent judgment, so is that decision of value.

There can be little difference of opinion up to this point. The really difficult question is, How shall the orders of the commission be reviewed and enforced? The railway rate is private property. Any unjust reduction of that rate is an unjust taking of private property. The railway industry is with but one exception the largest industry, and without exception the most important industry in our country. Any unjust interference with it, or any unreasonable embarrassment of it, would be both wrong and foolish. A commission like that suggested, which is at once an investigating and a deciding body, may be to an extent partisan. The questions passed upon are of tremendous importance. Some method ought to exist by which possible mistakes upon its part could be corrected.

Such security is already provided to an extent by the Constitution of the United States. The Supreme Court has held that the fourteenth amendment prohibits upon the part of a state (it would probably be the same in the case of the United States) the putting in by the government of a rate so low as to deprive the holders of rail-

way securities of their property without just compensation ; and this clearly prevents the possibility of imposing such rates as amount to a practical confiscation of property. However, there might be rank injustice far short of confiscation ; and while this remedy may, under future construction by the court, turn out to be an adequate one, the general feeling is that some additional protection should be provided.

The court cannot prescribe a rate for the future, but it may determine whether that rate, when fixed, is reasonable ; and the suggestion hitherto has been to permit the federal courts to review and set aside, if found unreasonable, the orders of the commission. It is very doubtful whether any such system can ever give satisfactory results, for the reason already stated. These questions are not of a judicial nature, and cannot be intelligently passed upon by courts. Federal judges are not selected for that purpose. Most of them have absolutely no experience in such matters. Their time is fully occupied with their proper duties, and the very nature of those duties in a measure unfits them to appreciate these questions. As well might it be provided that courts shall enforce the laws enacted by Congress, if such laws are, in their judgment, reasonable and just. When the English government had under consideration some method of regulating its railways, Parliament addressed to the judges of last resort an inquiry as to whether that duty could be properly undertaken by the courts, to which all but one responded in the negative. It is my belief, founded on experience and reflection, that any system of regulation, however excellent in other respects, which gives the federal courts power to suspend and finally set aside the orders of a commission must be of doubtful value.

For these reasons it has long seemed to me that we must create a new tribunal, in the nature of a commerce court, to deal specially with these questions—a tribunal with judicial attributes, but discharging the combined functions of court and commission, as does the English Railway Commission to-day. Some scheme of this nature appears to furnish the only rational solution of this difficult problem.

First. Whatever body enforces the orders of a commission must make decrees and execute process. A commission itself cannot be invested with these powers; the special court suggested could be.

Second. A commission whose members hold office for limited terms is not permanent in its personnel, and might be subject to influences of a sectional or political nature. This is often suggested as a reason why the great power involved in the right to control railway rates should not be given to such a body. The members of a tribunal like that suggested would hold office for life, would possess all the conservatism and independence of judges, and would afford to railway property the protection thereby assured.

Third. The main objection to intrusting this duty to the present courts is that the questions involved are not properly law questions. The thing to be reviewed is the judgment of an expert *quasi* legislative body. The review of such a judgment is not a judicial function. The attempt to make it one must result in dissatisfaction and confusion. A court like that suggested would be occupied mainly in the consideration of such matters, and would become even more familiar with them than the commission itself.

Fourth. Such a court would be able to act promptly; and this is the essence of regulation, especially railway

regulation. These are not lawsuits, where interest or increased damages can make good to a plaintiff the lapse of time. When the wrong has been once inflicted it never can be righted. If there were no other reason for not committing this task to the present courts, the interminable delays attendant upon that mode of procedure would be a sufficient one.

It may be objected that such a court would not be sufficiently occupied. My own impression is that after a little it would be. A commission charged with regulation of the interstate railway traffic of this country and having any real power to make enforceable orders would necessarily render very many decisions. The duties of a commerce court would not, however, be confined to reviewing and enforcing such orders. Matters arise daily which can only be properly dealt with through the summary process of a court. Such a tribunal might also be available in dealing with monopoly in other branches of interstate commerce as well as railway transportation.

What I desire to emphasize, however, is not the method, but the fact that in some way the government must determine whether railway charges are reasonable, and if not, make them reasonable. And in conclusion let me ask what objection can be urged against this proposition? Various objections are urged, depending largely upon the audience to which those objections are addressed.

It is said, for instance, that these questions will settle themselves; that in the grand march of human progress these things will somehow all come out right. Just what right may be, or just why the future is to be more nearly right than the present, or for what reason a thing which is wrong should not be corrected now, is *not*

stated. Sometime since I fell into conversation with a distinguished apostle of this doctrine. He is a great student of the railroad problem, upon the railroad side, and a most voluminous writer upon that side. After some discussion, in the course of which he admitted the existence of many evils, I said to him, "Doctor, you admit that these evils do exist; now what is your remedy?"

"Sir," replied the Doctor, "I rely upon the *interaction of the correlated forces*."

Good! If the coal combine squeezes you, turn on the forces, and be certain they are correlated.

It is also said that the making of a rate is a matter of such delicacy that only the expert traffic manager can deal with it. One would almost fancy that freight rates were made as birds build their nests,—by instinct,—and that the entire quantity of rate-making instinct was already monopolized by the railways. Very recently one of these gentlemen testified before the Interstate Commerce Commission that in his opinion all rates were too low. The last annual report of his company shows that it earned during the year ending June 30, 1902, interest upon its funded debt, a dividend of 7 per cent upon its preferred stock, and nearly 12 per cent upon its common stock, although it paid only 6. I cheerfully concede the distinguished ability of that gentleman. I do not concede that whether the territory served by the 7000 miles of railway over whose traffic operations he presides shall pay 12 per cent or 25 per cent to his stockholders must rest entirely in his judgment.

It is urged that the self-interest of the railway is a sufficient protection to the shipper; that in order to provide traffic the interest of the carrier requires it to establish and foster industries. To an extent this is true, and

for that reason I have already said that the railway should be allowed in the first instance to name its own rate; but the same self-interest which induces that carrier to establish the industry at first induces it to take the last penny possible when established. Self-interest should be allowed free play until it becomes rapacity; then it must be checked.

It is earnestly insisted that the freight rate is a commercial proposition which must be left to the laws of commerce, with which the government cannot safely meddle. You will remember that the carriers have recently advanced rates on grain and grain products in all directions, among others $2\frac{1}{2}$ cents from Chicago to New York. Some two weeks ago the Commission began an investigation into that matter, and examined two witnesses, both traffic managers of leading lines. One said that he made the advance because his president directed him to, the other because he was told by his executive officers that they must have more money. The only commercial proposition at the bottom of these advances is the proposition that the producers and consumers of grain shall pay to the stockholders of these railways several millions of dollars more annually than has hitherto been paid.

It all comes to this: Railway transportation is to-day a monopoly. This you cannot prevent. You can control the monopoly by controlling the charge which it exacts. This should be done wisely and carefully, but it must be done.

LEGISLATIVE REGULATION OF RAILROAD RATES

WALKER D. HINES

It is my purpose to discuss merely the question of enlarging the powers of the Interstate Commerce Commission by giving it the power to make rates and regulations for the movement of interstate traffic.

The agitation for this additional power began when the Supreme Court decided the so-called Maximum Rate Case on May 24, 1897.¹ In that case the Commission had undertaken to prescribe maximum rates, very much less than existing rates, for the transportation of several thousand articles of commerce from Cincinnati and Chicago to the principal cities of the South, and had directed that rates to other points in the South should be correspondingly reduced. If these rates had become effective, the result would have been radical reductions in the rates on practically all south-bound business east of the Mississippi River; in other words, upon a very large percentage of the entire interstate traffic of the United States. The Supreme Court in an elaborate opinion pointed out that if such a power existed the Commission could, if it chose, change every interstate rate in the United States in a single proceeding; or, in other words, that it would necessarily have the general rate-making power. The court said that the power itself was so vast and comprehensive, so largely affecting the rights of the carrier and shipper, as well as indirectly all commercial transactions, and was a power of such supreme delicacy and importance, that it could only be

¹ 167 U. S. 479.

granted by clear and express language; and decided that Congress had not only not granted the power, but that such a power was inconsistent with the terms of the Interstate Commerce Act, and was a radical departure from the scheme of regulation which Congress had provided. The court was careful to point out that its decision in no way impaired the purposes of the act or the functions of the Commission. On this point it said:

But has the Commission no functions to perform in respect to the matter of rates; no power to make any inquiry with respect thereto? Unquestionably it has, and most important duties in respect to this matter. It is charged with the general duty of inquiring as to the management of the business of railroad companies, and to keep itself informed as to the manner in which the same is conducted, and has the right to compel complete and full information as to the manner in which such carriers are transacting their business. And with this knowledge it is charged with the duty of seeing that there is no violation of the long and short haul clause; that there is no discrimination between individual shippers, and that nothing is done by rebate or any other device to give preference to one as against another; that no undue preferences are given to one place or places, or individual or class of individuals, but that in all things that equality of right, which is the great purpose of the Interstate Commerce Act, shall be secured to all shippers. It must also see that the publicity which is required by Section 6 is observed by the railroad companies. Holding the railroad companies to strict compliance with all these statutory provisions and enforcing obedience to all these provisions tends, as observed by Commissioner Cooley, in *in re Chicago, St. Paul and Kansas City Railway*, 2 Int. Com. Com. Rep. 231, 261, to both reasonableness and equality of rate as contemplated by the Interstate Commerce Act.¹

The Commission at once entered upon a campaign to secure the rate-making power desired, and persistently assailed the Supreme Court's decision. The Supreme Court was contradicted at every point, and it was vigorously asserted that the power was not a general rate-making power, that Congress had undoubtedly intended to confer it, and that the Commission had been stripped of all authority and opportunity to carry out the provis-

¹ 167 U. S., p. 506.

ions of the law. As illustrative of this attitude I quote as follows from the Commission's eleventh annual report, for the year 1897 (page 14), in describing the effect of that decision :

The carrier is given the right to establish and change its rates, independent of the judgment of the Commission and independent of the action and judgment of any other court or tribunal ; the right to establish, demand, and receive unreasonable and unjust charges is not prohibited ; and in respect to the charges which may be demanded and received for any transportation service, the carriers are made the judges in their own cases as to what is reasonable and just.

The result of all this has been that many people have entirely lost sight of the judicial utterances of the Supreme Court, and have accepted as facts the unjust and unbecoming criticisms circulated by the Interstate Commerce Commission.

Despite all assertions to the contrary, the definite scheme deliberately adopted by Congress for correcting unjust and unreasonable rates has never yet proved insufficient. A great many of the Commission's orders have been complied with. It has chosen to take but comparatively few of those orders into court for enforcement. When it has resorted to the courts it has developed practically without exception that the particular orders were improper and ought not to be enforced. This was not due to any lack of adequate power in the Commission, but was due to its erroneous methods. If those interested would take the trouble to read the decisions of the courts in these cases they would be astounded to find how generally the Commission has been wrong on practical and economic questions as well as with regard to the extent of its powers under the act.¹

¹ The orders which the Commission has taken into court, and the action of the courts in sustaining or overruling them, are as follows : K. & I. Bridge case, overruled by Circuit Court, and no appeal (37 Fed. 567).

Since the decision of the Maximum Rate Case, the Commission has made but one order which has been passed upon by the Supreme Court, that being the order relating to terminal charge on live stock shipments to Chicago. In that case the court clearly assumed that the Commission had the power to correct unreasonableness in rates. But it declined to enforce the order because the Commission's conclusion was illogical and unjust on the facts.¹

Much has been said about the delays in court in enforcing the Commission's orders. Since, however, the Commission's orders which have been taken to the courts have been found almost without exception to be altogether improper, the length of time occupied by the courts in disposing of these cases is no criterion whatever as to the length of time which would be occupied

- I. C. C. *vs.* B. & O., overruled by Circuit Court (43 Fed. 37), and by Supreme Court (145 U. S. 263).
- I. C. C. *vs.* T. & P. R'y, sustained by Circuit Court (52 Fed. 187) and Circuit Court of Appeals (57 Fed. 948); overruled by Supreme Court (162 U. S. 197).
- I. C. C. *vs.* C., N. O. & T. P. R'y Co. (Social Circle Case), overruled by Circuit Court (56 Fed. 925); overruled by Circuit Court of Appeals as to rates from Cincinnati to Atlanta, which the Commission made, but sustained as to the Social Circle long and short-haul order; no opinion by Circuit Court of Appeals; position of that court sustained by the Supreme Court (162 U. S. 184), which also held in that case that the Commission had no power to make rates.
- I. C. C. *vs.* Detroit, &c. R'y Co., sustained by Circuit Court (52 Fed. 1005); overruled by Circuit Court of Appeals (74 Fed. 803), and by Supreme Court (167 U. S. 633).
- I. C. C. *vs.* D. L. & W., overruled by Circuit Court (67 Fed. 724).
- I. C. C. *vs.* Ala. Mid. R'y, overruled by Circuit Court (69 Fed. 227), and Circuit Court of Appeals (74 Fed. 715), and by Supreme Court (168 U. S. 144).
- Behlmer *vs.* L. & N., overruled by Circuit Court (71 Fed. 835); sustained by Circuit Court of Appeals (83 Fed. 898), one judge dissenting; overruled by Supreme Court (169 U. S. 644).

¹ 186 U. S. 320.

by the courts in disposing of cases in which the Commission made just and proper orders. Indeed, orders of the latter description have been generally complied with by the carriers without any necessity for resort to the courts. The present law, moreover, plainly provides that unless the railroad company convinces the circuit court that the Commission's order is unlawful the circuit court shall decree the immediate observance of that order. While the carrier has the right to appeal, the appeal does not of itself relieve it of the necessity of observing the Commission's order thus approved by the circuit court, and it can secure such relief only by an affirmative order of the circuit court, which rests entirely

- I. C. C. *vs.* L. & N., overruled by Circuit Court (73 Fed. 409); appealed to the Circuit Court of Appeals and there dismissed by the Commission.
- I. C. C. *vs.* N. E. R. Co., overruled by Circuit Court (74 Fed. 70), and by Circuit Court of Appeals (83 Fed. 611).
- I. C. C. *vs.* Lehigh Valley R'y, overruled by Circuit Court (74 Fed. 784).
- I. C. C. *vs.* C., N. O. & T. P. R'y (Maximum Rate Case), overruled by Circuit Court (76 Fed. 183); question certified by Circuit Court of Appeals and the Commission again overruled by the Supreme Court (167 U. S. 479).
- I. C. C. *vs.* W. & A. R. R. Co., overruled by Circuit Court (88 Fed. 186), by Circuit Court of Appeals (93 Fed. 83), and by Supreme Court (181 U. S. 29).
- I. C. C. *vs.* C. B. & Q., overruled by Circuit Court (98 Fed. 173), by Circuit Court of Appeals (103 Fed. 249), and by Supreme Court (186 U. S. 320).
- E. T. V. & G. *vs.* I. C. C., sustained by Circuit Court (85 Fed. 107), and by Circuit Court of Appeals (99 Fed. 52), but overruled by Supreme Court (181 U. S. 1).
- Sou. Pac. Co. *vs.* Col. Fuel & Iron Co., sustained by Circuit Court, but overruled by Circuit Court of Appeals (101 Fed. 779).
- I. C. C. *vs.* L. & N., sustained by Circuit Court (102 Fed. 779), but overruled by Circuit Court of Appeals (108 Fed. 988); now in Supreme Court.
- I. C. C. *vs.* Southern R'y, overruled by Circuit Court (105 Fed. 703).
- I. C. C. *vs.* L. & N. *et al.*, sustained by Circuit Court, July 1, 1902, but not yet reported.

in the discretion of that court; so that if the court believes the public welfare requires that the order shall immediately go into effect, the carrier must immediately observe it, whether it appeals or not.

All that is said as to securing just and reasonable rates necessarily relates to just and reasonable *tariff* rates. It is an entirely different thing to compel a *strict observance* of those rates. The tariff rates may be entirely proper and yet serious evils may arise from secret departures from them. This evil of secret rate-cutting was the most serious evil when the Interstate Commerce Act was passed, and has remained the most serious ever since. No possible power of rate-making can prevent secret rate-cutting. The incorrect impression has been disseminated by the Commission that secret rate-cutting was due to the Supreme Court's decision in the Maximum Rate Case, whereas in fact the two subjects have no relation to each other. Most of the sentiment in favor of giving the Interstate Commerce Commission the rate-making power desired is based upon two misconceptions: first, that the power of the government to correct unjust and unreasonable rates was destroyed by the Supreme Court's decision in the Maximum Rate Case; and second, that the proposed rate-making power would prevent secret rate-cutting.

The present proposition is to give the Commission precisely the power which it sought to exercise in the Maximum Rate Case, and which the Supreme Court then said would enable it to change every interstate rate in the United States in a single proceeding, if it chose to do so. If the Commission be given this power, it will be practically free from judicial control, and therein its power will differ vitally from its present authority. The existing power is a *quasi* judicial power which the

courts can supervise ; the proposed power is a legislative power with which the courts can not interfere unless so exercised as to amount practically to confiscation of the carrier's property. Once give the Commission the legislative power of making rates, and the courts, following a long and unbroken line of precedents, will indulge every presumption in favor of the Commission's action, and will refuse to interfere with it unless the railroad can demonstrate that the Commission has flagrantly disregarded the pecuniary rights of the railroad company and that the enforcement of the Commission's order would amount to confiscation of the railroad company's property. Thus until the limit of flagrant impropriety is reached, the Commission will be supreme. To the extent of the very wide margin of discretion thus conferred upon the Commission, its edicts will be final.

This issue should be squarely faced. It is the question whether Congress shall give the Commission the power to make rates just as generally as it may choose to exercise the power, when that power is one which, in the nature of things, can not be adequately supervised by the courts, and will leave the Commission the final arbiter, except in cases amounting to confiscation. The proposition, moreover, is to adopt this course, which the Supreme Court has pointed out is a radical departure from the course devised by Congress, when there has never been a demonstration that the plan already adopted by Congress is not entirely adequate to meet the situation, and when any existing dissatisfaction with the law is due to the shortcomings of the Commission rather than to defects in the procedure prescribed by Congress.

I have no doubt these statements may not accord with the understanding of many of my hearers. The state-

ments, however, are absolutely correct, and will be verified by any intelligent and impartial person who takes the trouble to examine the provisions of the law, the public documents, and the decisions of the courts bearing upon the subject.

The regulation of railroads is eminently and exclusively a practical question, because no business is more severely practical or more inextricably interwoven with all the special and peculiar conditions of every phase of the commercial and industrial life of the country. The practical difficulties incident to the construction of railroad rates can not be overestimated. Every article of commerce has its peculiar characteristics and develops its own peculiar conditions. Every source of supply for raw materials has its local peculiarities, and many of them must look to constantly shifting markets. Every plant for the manufacture of anything has its individual requirements. Every commercial center has its own individuality, made up of a variety of conditions affecting the sources of supply, markets of disposition, methods of transportation, and its own physical aspects. Every railroad has its own problems to meet, its own phenomena of supply and demand of cars and locomotives, its own difficulties as to grade and curvature, its own varying conditions as to the direction in which cars move empty and trains are lightest; its own problems of congestion, its own duties to industries and communities dependent upon it; and the whole of this differs for every railroad and for every season of the year, and on each railroad these conditions may vary on every division and at every terminal. Conceive, if possible, of the continued but constantly varied interaction of all of these commercial, industrial, and transportation conditions and problems, and of numerous

others impossible to enumerate, and some idea may be obtained of the forces which make railroad rates and of the complexities and difficulties of the subject.

Railroad managers have to consider and meet all these conditions, keep the traffic of the country moving, devise ways of increasing the volume of that traffic, and if possible secure a return to the private enterprise and capital which have built and own the property.

Nevertheless, more theorizing has been employed with respect to railroads than with respect to any other business in the country. It has been a favorite mistake to discuss at great length the reasons upon which the right to regulate might be founded and then to assume, without consideration, that the right thus established ought as a matter of fact to be exercised to the utmost extent at this time. Many of the arguments are of this character alone. Yet if the right to regulate to the fullest conceivable extent be proved to a mathematical certainty, and if all the arguments and theories which ingenuity can suggest be marshaled to support it, all this will not and can not advance a single step toward a decision of the practical question as to what regulation is necessary or desirable.

It is broadly claimed that the railroad business is a governmental function, and upon this claim not merely the right but the expediency of practically unlimited governmental regulation is based. However, the operation of railroads has never been regarded, either in England or in this country, as a strictly governmental service, and it has only in rare and temporary instances been carried on by the government; but, even if it be, in theory, a purely governmental service, the government of this country has in fact elected to permit the service to be performed by private enterprise and private

capital. Certainly the fact that the public has a vital interest in the due performance of the service is no justification for any regulation except that based upon practical necessities. Under existing circumstances the railroad business is, and must be, managed by private individuals acting under a rigid pecuniary responsibility, and controlled by commercial and industrial conditions, against which the government affords neither protection nor guaranty. Railroad managers are bound to move the business of the country, and they must use their own knowledge of the facts and their own judgment, and act at their own peril in doing so; and public interference carries with it no relief from responsibility, and no guaranty against the mistakes of the interference.

It is frequently urged that there ought to be more control over the railroads of the country. The fact is that the railroads now are more controlled than any other institution in the country. They come in contact with the public in more different ways and are more subject to injurious restrictions than any other property interests. Every village board of trustees, every town and city council, every school district, every state, and every political sub-division of the state in some way regulates the railroad business and imposes restraints or taxes or both. The railroad is held to a more rigid responsibility in the courts than any other litigant. Its property is always within reach, and everything it does is done at its peril, not only of adverse judicial decisions to enforce legal rights that may have accrued against it, but of exciting hostile public sentiment which can hamper the property and impair its earning power in a thousand ways. Justice and the public interest would be subserved by less rather than by more control of railroads. But whether less or more, the question should be

determined by the actual necessity for the regulation and not by theories.

It is said that there should be some expert and impartial tribunal to decide between the two parties, the railroad on the one hand and the shipper on the other. This is nothing but a misleading generality which does not assist in deciding the practical question at issue. Nevertheless it is fully met by the existing condition that the courts are now in position to give relief to the shipper against any unreasonable rates or rate adjustments. However, this generally is apparently regarded as a sufficient basis for giving unlimited and practically final rate-making power to the Commission. If the government, while permitting the railroads to be run by private capital, should undertake directly to appoint the traffic managers of the various roads, such action would be regarded as wholly indefensible; yet precisely the same result would be reached if the Commission were given the power in question, because it could then, by its own will, assume the position of traffic manager for every railroad in the country to whatever extent it might choose to occupy that position. The only relief the railroads would have would be that if the Commission's acts in the capacity of traffic manager were flagrantly and palpably oppressive they could be corrected, but otherwise the Commission's discretion would be supreme. Certainly it is an inversion of all the principles of justice to continue to hold the railroad companies to all the duties and responsibilities and risks of the business and at the same time subject them to the practically unlimited interference of a tribunal of this character, when no guaranty whatever is afforded against the mistakes of that interference. Under the present method the mistakes of the railroad companies can, in every instance,

be corrected, whereas under the proposed method the mistakes of the Commission could not be corrected anywhere.

No such Commission is at the outset an expert tribunal, and it is not likely to become such. It is likely to be made up of gentlemen who have reached middle life, and who have probably up to that time devoted themselves to politics. They are rarely practical business men and almost never practical railroad men. They are likely to enter upon the performance of their duties with elaborate theories which, not being based upon experience, are probably incorrect, and almost without exception they show a surprising inclination to make railroad practices conform to their theories rather than to readjust their theories so as to be in conformity with the practical necessities of the transportation business of the country.

These statements are borne out by the history of the present Interstate Commerce Commission. In repeated instances the Commission has utterly refused to be influenced by long-settled railroad usages, has unanimously pronounced them unsound and unlawful, and later, when the cases came before the courts of the United States, those usages have been upheld and commended. This cannot be due to any difference in personnel of the Commission and the courts. It must be due largely to the fact that the courts are much more likely to approach these questions less hampered by preconceived and inelastic theories on the subject, and must be further due to the fact that the courts have no motive so to determine these questions as to draw to themselves the constant management of the details of the railroad business, whereas the railroad commission is almost always largely influenced by this motive, for unless it

can be managing the details of the railroad business it does not feel that it is justifying its existence.

It is everywhere recognized that administrative tribunals are ambitious for power. They use all they have and ask for more. The Interstate Commerce Commission is no exception to this rule. As an illustration of this disposition on the part of such tribunals, a state commission which has for many years fixed railroad rates recently came forward with the urgent recommendation that it be given the power to say when and where the railroads should build side-tracks, to compel them to acquire additional rolling stock, and to prescribe what disposition the railroads should make of their rolling stock. If any such commission should be given all the power it asks it would eventually be operating the railroads in every detail; but clearly before the government can properly operate the railroads of the country it ought to acquire and pay for them.

The very nature of the work of such a commission prevents it from being strictly impartial. It does not occupy the attitude of a court, declaring what the law is and having no interest in the result; but it is constantly making new and sweeping laws as it goes along, and there is always serious danger of its being led on by the seductive fascination incident to this exercise of legislative power. Such a commission therefore is apt to stand as the opponent of the railroads rather than as a tribunal deciding impartially between the shippers and the railroads. In my opinion the Interstate Commerce Commission is no exception to this general tendency, and I think it can properly be regarded as the champion of the shipper rather than as an impartial tribunal. I think this conclusion is fully warranted by its decisions and other official utterances.

It is asserted that this rate-making power must be given to the Commission because the railroad competition which has been responsible for the low rates up to this time is now disappearing through consolidations and combinations. In other words it is claimed that the reducing power of the Interstate Commerce Commission must be substituted for the reducing power of railroad competition. The Interstate Commerce Commission, however, urged this demand for the rate-making power just as strongly in 1897 as it urges it now, although at that time there were no important signs of the recent consolidations and they were not used as an argument. The recent tendency towards consolidation, therefore, is not the basis of this demand. It is simply utilized as a convenient argument to support it.

But the argument is fallacious and always will be fallacious, no matter what the facts are or may be as to railroad combinations, because railroad competition is not what has brought down rates in this country. Of course railroad competition has been frequently very active and even acute, with the result that rates have been much reduced by secret rebates. This, however, has always been regarded as illegitimate competition and injurious rather than beneficial to the public interests. Such illegitimate competition has been irregular and spasmodic in its effects. It has not ordinarily led to any permanent reduction in tariff rates. The low tariff rates which now prevail in this country are not due to this railroad competition, but are due to the competition between markets and between products, which will always exist, and to the efforts which the railroads are constantly making to increase their traffic, realizing, as they do, that increased profits must lie in increased volume of traffic, and that increased volume can from time to time be developed by reductions in rates.

In the territory south of the Ohio and east of the Mississippi River there has rarely if ever been any permanent and general reduction in tariff rates on account of mere railroad competition. Tariff rates have been better maintained in that territory than in almost any other section of the United States. There have been extensive and important railroad consolidations in the South. Therefore if the continual reduction in rates in this country had been due merely to railroad competition, material reductions would not be looked for in the South. Yet there have been substantial and steady decreases in the rates in southern territory; and there has been and still is a steady decrease in the rate per ton per mile. These reductions have been due to the competition of product with product, market with market, and to the effort on the part of the railroads to maintain and increase the volume of traffic.

This could only be done by making such rates as would meet the rates made in other parts of the country to the same markets and upon the same or similar products. No matter how far the unification of railroad interests may proceed, there will still be the necessity for each railroad to build up the traffic on each part of its line and to develop a volume of traffic which will permit the most economical management; each railroad will still have to be maintained to serve the local demand upon it, and economy of operations and profits from operations can only come from the wise adjustment of rates to develop a volume of business far in excess of the local traffic. Now and always this can only be done by making rates sufficiently low to encourage the movement of the traffic in question. This is the substantial factor in reducing rates in this country and always will be.

It has been picturesquely said that five men seated around a table in New York city can determine the rates which shall obtain in this country. The statement is without foundation. If a single individual owned all the railroads in the United States he could not dictate the rates of transportation. His motive would be to have his railroads managed so as to produce a profit upon his investment. The only practical way to accomplish this result would be to entrust the management of the lines in the various localities to officers familiar with the peculiar conditions of those sections, leaving it to them to develop such a volume of traffic as would make economical and profitable management possible.

This condition could only be realized through an intelligent construction of rates on a basis sufficiently low to develop the traffic. This is what has made rates low in the past, and it will keep them low in the future.

The insignificant part played by railroad competition in keeping rates on a low basis is clearly shown by the following statement made in 1895 by Mr. Knapp, then a member and now chairman of the Interstate Commerce Commission :

In the New England States the process of absorption in one way or another has gone on until there is now practically no competition in the railway service of that section. So far as I am aware, this consolidation has not resulted in any increase in charges, but on the contrary has been attended by considerable reduction in rates, by improved facilities, and the better accommodation of the public. Fewer complaints come to us from that region than from any other part of the country. My observation and inquiries lead me to believe that there is less dissatisfaction with railroad charges and practices in New England than is found elsewhere in the United States, and that the people in that territory would not welcome a return to competitive conditions.¹

¹ Letter to Senator William E. Chandler, dated Washington, October 17, 1895, published in Senate document 39, fifty-fourth Congress, first session.

Much stress has been laid on increases in rates in the last three years. Some members of the Interstate Commerce Commission have taken the pains to point out that with the increasing volume of business and the increasing efficiency of machinery rates should be diminished instead of increased. If in fact these increases have been unreasonable they can be corrected under the present law. So far, however, the Interstate Commerce Commission has not officially declared them to be unreasonable. It may be proper to say that in the South the reductions have far outnumbered the increases, and that while it is true that the volume of traffic and efficiency of machinery have pretty steadily increased during the past fifteen years, yet the Louisville & Nashville Railroad Co. realized less net earnings per mile during the past fiscal year than it realized during each of six other years during that period; and in 1902, with the greatest tonnage in its history, its cost per ton per mile was greater than for the three preceding years. Indeed, the cost per ton per mile has been increasing for the past four years.

While it is not probable that traffic conditions will permit the railroads of this country to increase their returns materially, it should be conceded, as an abstract proposition, that railroad companies have the right, in times of exceptional prosperity, when the price of every other service and commodity is increased, to share in that prosperity by increasing their rates. In other lines of business the volume of business and the efficiency of machinery have increased, but this does not preclude an increased profit upon each unit of production. It will no doubt be said that with railroads the case is different, because the railroad business is a public service. Nevertheless the government of this country has in fact elect-

ed to permit the service to be performed by private enterprise and private capital. As long as private capital is subjected to all the risks and losses of adversity, it certainly should not be denied participation in the advantages of prosperity, nor expected to rely for such advantages upon mere increase in volume of traffic. In times of depression railroad traffic is not only much diminished in volume, but the railroads have to reduce their rates in order to retain even a diminished volume. Inasmuch as the government does not in any way restrict the railroad's losses, it should not restrict the railroad's profits, unless those profits are derived from unreasonable rates. To measure reasonableness of the rates by some small rate of interest upon the investment is to adopt an impracticable rule and is to deny fair treatment to the private capital which has ventured to engage in business which the government itself is unwilling to perform, even assuming that the government has the constitutional power to perform it.

The power which the Interstate Commerce Commission could and would wield under the authority proposed is so great that it can not be exaggerated. Not merely would it exercise this power over the railroads themselves and the investors in railroad securities, but it would exercise it over the commerce of the country. The present adjustment of rates between competing cities is the outcome of long contentions and numerous compromises, each railroad insisting upon and fighting for what it conceived to be due to the cities on its line. The Commission will undoubtedly under the power proposed change these adjustments from time to time. This does not imply that the present adjustment is wrong, but simply recognizes the disposition of such tribunals to exercise all the power they may possess. Of course the

Commission in the exercise of this power to readjust rates between localities can not help one without hurting another. The opportunities for sectional favoritism which would thus arise, the local strife which would be engendered, and the serious interferences with the usual channels of commerce which would probably result are among the most serious consequences incident to giving the rate-making power to such a tribunal. Nor does it involve, as has been so often speciously urged, the transference of such power from the railroads to the Commission, for the railroads do not now possess it. Every railroad tries to protect and foster the localities on its own line, but it knows that if it does this to an undue extent it will simply bring about corresponding readjustments with respect to competing localities, and will thus fail in its object. Moreover the action of the railroad is subject to ample judicial restraint, while the action of the Commission would not be.

The railroads of the country are vitally concerned in every commercial and industrial development. More than any other one interest are the railroads responsible for the wonderful material progress of this country. It can not be that the present results have been attained by a policy of oppression, or that the railroads with all the experience of the past will seek to impair the further development of commerce and industry, or defy existing laws, or invite more drastic ones. Despite representations to the contrary by persons having special ambitions or special grievances, the public has not been convinced and ought not and can not be convinced that their material welfare depends upon or will be promoted by giving the Interstate Commerce Commission the tremendous and dangerous power which is necessarily involved in the power to make rates.

Any further regulation of this subject ought to be most carefully considered. It should not proceed on any merely theoretical condemnation of the existing system. The insufficiency of that system, if it is insufficient, ought to be proved by actual test. If the fault lies with the Commission, that, instead of the law, should be amended. It is a subject for thought and investigation. The statements of interested parties, either for or against the railroads, should not be accepted as final. Original sources should be examined. Facts, not conclusions, should be demanded, and alleged facts should be thoroughly scrutinized. Tremendous and practically unlimited power should not lightly be conferred upon any government bureau. The private enterprise and capital to which the government chooses to leave the operation of the railroads of the country is entitled to protection and to freedom from any interference in the difficult work in which it is engaged except such interference as is necessary to protect the public.

PUBLIC REGULATION OF RAILROADS—

DISCUSSION

EMORY R. JOHNSON: Mr. Prouty considered four main points in his paper on the national regulation of railways: (1) that discriminations have ceased to be the main feature of the railway problem, and that actual and possible extortion in rates has become the paramount question; (2) that the railroad is the greatest and most dangerous of all monopolies, and is now making use of its monopoly power in many instances to advance rates to the point of extortion; (3) that the effective regulation of railway charges demands the establishment of a commission with power to adjust rates; and (4) that the review and enforcement of the commission's orders should be vested in a special tribunal or a commerce court.

Mr. Prouty says that "five years ago the crying evil in railway operations was discrimination, mainly discrimination between individuals." This does not seem to express the facts with entire accuracy. The most serious discriminations have not been those of a personal nature, but those between different classes of traffic and between rival centers of production and distribution. While personal discriminations have always attracted great attention, their consequences have never been so serious as have been those affecting the classification of commodities and the relations of localities with each other. I question, moreover, whether the main purpose of railway regulation has come to be the prevention of extortionate charges. In the present and in the future the chief object to be accomplished by government in-

terference will be the minimizing of discriminations. Extortionate charges in individual cases are now and will continue to be a possibility, but the scope of such extortions can hardly become extensive. The competition of rival areas of production in this country, each struggling to secure as great a share as possible of the markets of the world, will be eliminated neither by the combination of producers nor by the consolidation of the railroads into a small number of groups. We are witnessing a rapid consolidation of the railroads of the United States, and the prospect is that before many years the country will be divided up territorially among a small number of systems. That this will give the railway companies greater ability to coöperate and a greater power to regulate their charges there can be no question. But the fact remains that the prosperity of each carrier and of each group of carriers must depend upon its securing a constantly increasing volume of business. The carrier is a joint agent in production, and can succeed only as the region it serves prospers industrially.

That the railway business is the greatest and most dangerous of all monopolies I am not prepared to admit. The essence of monopoly is the power to fix the price the consumer must pay. The railroads possess a partial monopoly which, though powerful, is limited by the action of competitive forces exercising a wide-reaching influence over the rates which carriers can charge. Many of the factors affecting the price which the carrier may charge for his service are quite beyond the control of the traffic manager. This thought was well stated by Mr. Hines when he said, "The low traffic rates which now prevail in this country are due to the competition between markets and between products which will always

exist, and to the efforts which the railroads are constantly making to increase their traffic, realizing as they do that increased profits must lie in increased volume of traffic."

Whether rates are now becoming extortionate is a question of fact difficult to decide, but in drawing conclusions regarding the advances that have taken place in railway charges during the past four years we should bear in mind three facts:

1. Freight charges were forced to a very low point during the period from 1893 to 1898, and that profits in the railway business were then reduced to a very small figure.

2. The advances of the last four years have been relatively slight. The average ton-mile earnings since 1896 have been as follows: in 1897 they were .798 cents; in 1898, .753 cents; in 1899, .724 cents; in 1900, .729 cents; and in 1901, .750 cents. The lowest point was reached during the year ending June 30, 1899. The average ton-mile revenue for 1901 was practically the same as that for 1898.

3. The enormous increase in net earnings of the railways has been due mainly, not to higher rates, but to an increase in the tonnage of their traffic. The railway business is one in which the law of increasing returns operates powerfully. The railroad companies are now doing a highly profitable business because they are doing such a large business.

The third point made by Mr. Prouty, that the effective regulation of railway charges demands the establishment of a commission with power to adjust rates, expresses a truth the validity of which has been fully proved by the experience of the United States during the past fifteen years, and by the history of railway reg-

ulation in numerous foreign countries. It is not possible for a national commission to accomplish its tasks if it has not the power to issue orders binding upon the carriers unless the enforcement of the orders is suspended or set aside by the courts. In his discussion Mr. Prouty very properly proceeds upon the assumption that the public regulation of railways is necessary. It would seem that the time for arguing in favor of effective government regulation of transportation agencies had long since passed; nevertheless Mr. Hines evidently approached his subject with the conviction that public regulation instead of being a necessary good is an unnecessary evil. The position now taken by Mr. Hines on this question is the one which railway officials generally held in 1870 when the American public made its first serious efforts to subject public carriers to government regulation. During the past thirty years most railway officials have ceased to champion the principle of non-interference by the government, but Mr. Hines is true to the faith of his fathers.

It is suggested by Mr. Prouty that the review and enforcement of the Commission's orders should be vested in a special tribunal or a commerce court, the purpose of the establishment of this special court being to secure a set of judges possessing expert knowledge of transportation matters, and to obtain a more prompt enforcement or annulment of the orders of the Commission. Such a system might work well in practice, but it might not. It is quite possible that the result of the establishment of such a court would be the development of two railway commissions instead of one, that there would be a division of responsibility, and that in the performance of their respective duties more friction might take place and greater differences of opinion might arise between

these two bodies than now exist between the Interstate Commerce Commission and the United States courts.

In amending the present law, greater efficiency should be given to the present Commission by making it the sole investigating body and the ultimate authority as to the facts. The courts should be restrained from investigating any fact the examination of which is not essential to a determination of the points of law involved. The efficiency of the Commission for the investigation and determination of traffic questions might possibly be enhanced and the value of its decisions increased if its members comprised laymen as well as lawyers. The members of the Interstate Commerce Commission are persons of exceptional ability, but in each case their training previous to appointment has been that of the lawyer. A commission consisting of five men—two lawyers, an economist, a traffic expert, and a man of business experience would seem generally equipped for the work to be done. I would favor placing the work of investigation in charge of such a body, and would, for the present, let the appeal from the decisions of the commission be made to the United States circuit courts.

BALTHASAR H. MEYER: Mr. Hines says, "It is broadly claimed that the railroad business is a 'governmental function.'" I believe in common with many others that there should be more regulation than we have at the present time, but not because the railroad business is a "governmental function" in the United States, as it is considered in other countries. We may be obliged to make it a governmental function in the United States; indeed many of us may be obliged to change our opinions with regard to governmental functions; but so long as both public and private in-

terests are properly regarded, I am ready to say that the operation of railroads is not to-day a governmental function in the United States.

Again he says, "The fact is that the railroads now are more controlled than any other institution in the country." However, I maintain that the relative amount of regulation at present in force with respect to other lines of business is of no importance in considering the amount of regulation required by railroads. A quarter of a century ago the principle was established that the state has the right of regulation of all private property devoted to a use in which the public has an interest, this right of interference increasing with the increase of the public factor in the business. In the railway business the public factor is large as compared with the private factor.

Again Mr. Hines maintains that "If those interested would take the trouble to read the decisions of the courts in these cases they would be astounded to find how generally the Commission has been wrong on practical and economic questions." I venture to say, however, that there is not a single instance in all the decisions of the United States Supreme Court in relation to interstate commerce in which the Interstate Commerce Commission has been overruled on broad statements of fact, although it has been overruled on questions of law, on questions relating to the extent of power of the Commission, on the exact meaning of the law, etc. I am greatly surprised to find a traffic man appealing to the Supreme Court's decisions with regard to traffic matters. Many of these gentlemen will tell you that they think the Supreme Court is quite incapable of deciding questions of traffic, and in proof of that they will refer to the *Trans-Missouri* and *Joint Traffic Cases*. In this *Trans-*

Missouri decision Justice Harlan, in a dissenting opinion, expressed what appears to meet the requirements of the case much better than the opinion of the Court. Indeed, while holding in great respect the Supreme Court and its decisions, one cannot but feel that these distinguished judges have been so engrossed with other matters that they have not thoroughly mastered the propositions with respect to railway traffic upon which they have been asked to render decisions.

Again Mr. Hines states, "Under the present method the mistakes of the railroad companies can, in every instance, be corrected." The chief means through which the errors of the railroads can be corrected is through the rate. However, we all know that the Commission has not the power to prescribe what is a just rate for the future; that if an order is made to reduce a rate, a reduction of a fractional part of a cent meets the requirements of the law. In this respect I believe an analysis of the laws of the different states and of the federal government with respect to the railroads bears out in general the point made by Commissioner Prouty that there is no efficient regulation of railroads in the United States to-day. Such regulation as exists is very limited in extent, perhaps in less than one-half dozen states.

In our own state of Wisconsin the Commission made a ruling, promptly observed by one of the large railways concerned, involving a differential rate between two different points competing for traffic to the West; but the railways on the other side of the Mississippi river at once changed the rate so as to reestablish that differential which was decided by the Commission and thought by the merchants to be unjust. The Commission can at the present time recommend anything and everything, but do nothing.

I believe with the paper in the limitations of competition, but cannot rely so much as perhaps does the writer upon the competition of markets. It is probably true that St. Paul and Duluth will always have competition in the wheat trade with South America and Russia and other parts of the world ; but competition of markets in the same country can continue only so long as the different markets can act through independent railways ; when all these markets are served by one system of railroads, it is largely a question of the good-will of those in control whether these different markets shall continue to compete on the same terms as theretofore. And when I speak of "good-will" I do not mean to imply that the railroad managers of the country do not desire to do what is right, duly to regard both public and private interests ; but there is nothing in existing legislation that can compel a single railroad manager to do what the law and the better judgment of his fellows says is right. When, for instance, the president of a system tells us that if we do not choose to comply with his terms we may walk from Louisville to Nashville, we realize the necessity of an efficient public authority. Somewhere there must reside power which will compel that single individual who holds out against the better judgment and just demands of his fellows to give us a proper rate ; and also power, when this individual blocks the way, to cause the locomotive to move just the same.

Again I am quite in accord with Mr. Hines with respect to the complexity of railway rates. Because of this complexity is it not necessary that in the establishment of the rate different interests should be represented ? Perhaps the most conspicuous illustration of "taxation without representation" the world has ever known is found in this establishment of all railroad rates by repre-

sentatives of one set of interests only. I do not mean that those who are not legally and financially responsible for the administration of railroad properties should have power to establish the rate, but I do believe—and I believe this because the experiences of various foreign countries show us that it is practicable—I do believe that these gentlemen should call into counsel members of chambers of commerce, of manufacturing bodies, of agricultural societies, and the like, and thus give a full representation to the different interests involved. I am confident that if before hay was pushed up from the sixth to the fifth class with apples, beans, cured meats, etc., the interests concerned had had an opportunity to be heard, hay and apples would have been put into separate classes. Under an advisory system I am sure the cheese makers of southern Wisconsin would not have paid twice as much for one-fifth the distance compared with New York cheese makers, in sending cheese to Chicago. The final point, then, is that we want representation, not with the view of taking from the railway managers who are responsible for the administration of their properties the power to fix the rate; but, because of the complexity of the rate problem, to urge that managers shall draw into their counsel men whose interests are affected by the rate, before such rate is finally established.

J. SHIRLEY EATON: The theme opened up by Mr. Prouty and further developed by Mr. Hines suggests many things. The major question, however, is whether on the largest grounds of public expediency and individual rights the state at large should enter into the regulation of railroad rates. People who have thought much on this subject have been very cautious when they

talk of the state's entering into the control of commercial conditions.

The reasons generally advanced for the control of railroad rates are that the railroads were built by the right of eminent domain, and are operated under a franchise. To my mind these reasons are incidents only of the larger reason on which they rest, namely, that private rights are modified by public rights, and that public convenience is a large element in determining private rights. The right of free passage over private property was one of the first instances of the application of this principle. The franchise is a device to stimulate industrial effort; and in most cases it is determinable, or at best exposed, under pressure of public sentiment, to the potential competition of another franchise that may impair its monopoly features.

Railroads, like every other industry, have tremendously enlarged their scope, until instead of dealing with the individual and isolated localities, their operations have come to be of great public moment. As Mr. Meyer said, they have passed from the stage where the individual conducting the business is the large and permanent factor and the public is the small and fugitive factor, to that stage where the patrons are the large and permanent factor. Public welfare and convenience being closely identified with these operations, we may find lodged in these railways great administrative power. It was said by one railroad president that he would rather be president of his railroad than governor of the state of Ohio. Those in the railway service recognize most keenly the responsibility committed to them.

In the industries of to-day it has come to be a nice distinction to determine what part of these governmental functions incidental to the operation of these great

properties is best performed by private agencies and what part by the state in its public capacity. That the ultimate review to determine right and wrong or public expediency or in expediency must rest with the state, no one will question; but that the state is the best agency for administration, which differs from review as forecast differs from recast, which must be highly elastic and very sensitive and alert to all the conditions with which it must deal, is open to grave question.

Much of the argument made by Mr. Prouty as to the raising of the rates to my mind was hardly to the point. Rates have been raised, but so have prices generally. The mere statement of the amount of these raises does not prove the injustice of the increase. He has indicated the stages by which the active and reckless competition of other days, an incident of chaotic service, has given way to a better ordered service by the railways through their consolidation. I think he has limited his view of competition to the competition between parallel lines. This is the most obvious, but after all only one of the forms of competition which control in making railroad rates.

We want competition; but the state comes in to say that competition shall exist only within definite limits, beyond which it becomes violence. You may stop work, but you must not commit physical violence; you may adjust your supply to the demand of the market, but you must not commit commercial violence; you may sell a thing for what you can get for it, but if your business affects public convenience your prices must be fixed by schedules and not varied for each individual. There may be as much competition in making a schedule as there might have been in higgling over each individual transaction. On the one hand the field of en-

terprise is a field of economic inequalities which we may recombine to produce new utilities; on the other hand public considerations dictate that some of these individual elements of inequality of advantage shall not be permitted to have force. The service performed is thrown into certain groups, as it were, and the price to each in that group is at an average valuation regardless of the immediate and special value to the party served. The seller to-day has a special advantage over those who buy of him, but he must not avail himself of that. He must put his price at the general average of value. And again the individual who may have to sell his services or his commodity to-day under adverse conditions will enjoy the average valuation of those services. To my mind this is a process that is going on throughout all industry, namely, the grouping of demands and the dealing with the individual instances of demand at the general average valuation of the group to which they belong.

The group should be sufficiently inclusive to eliminate differences of advantage or disadvantage that do not make for the good of society at large, and yet they must be sufficiently numerous to differentiate among the economic inequalities which the public service and individual advantage may combine to largest result. Discrimination between groups is a legitimate adjustment between supply and demand, but the discrimination between the individuals in such a group is what we conceive to be abuse or competitive violence. Society is constantly widening the scope of what they consider competitive violence. At the beginnings of the Standard Oil Company it was alleged that they got certain concessions from the railroad. The railroad said, "We will take your business at less rates because it costs us

less;" and the public said to the railroad, "You are a public carrier, and the inequalities between the situation of the Standard Oil Company and the individual operator should not enter into the rates which you quote to either party. Throw them both into a general group and quote the average valuation to each."

This is an instance of the development of any industry or commerce on a large scale, whether the state intervenes or not. During the last anthracite coal strike the great operators did not raise the cost of their coal one penny from the scale price in force before the strike was commenced, although every ton was mined at extraordinary cost and was of extraordinary value while stocks were so depleted. They were averaging the situation of the strike with the situation at other times when there was no strike, because they were large companies and a permanent factor in the situation. In the language of business we say that they were responsible, that they were following large policies, that they protected their customers against extraordinary conditions.

The state to-day says it wants to enter into this administration and determine what these groups shall be. They say you may have done these things for the best interest of yourself and the public, but you have not consulted them. There may be reason in this argument. The pressure of enlightened self-interest should determine most of these things; but it is true that as agencies become complex, while self-interest as a whole may be followed on enlightened lines, there may be many detailed abuses. For the most part when the public desire to enter into this administration they are practically saying that you do not know how to run your business for your own best interest. I will not say that they are not justified in that at times, but I would place most of

the clamor for public regulation of railways upon what I conceive to be the proper basis. If we are to introduce the public to representation in the exercise of these great administrative powers now exercised by the great commercial and industrial agencies, we must remember how prone the public have been in the past to make blunders and to accept the direction of inexperienced meddlers. This is not the spirit in which the public at large enter into the proposition, but it is unfortunately too often the way their best purposes are frustrated.

Abuses so far complained of center upon the question of rates, and we have had tribunals to sit upon the question of what is a reasonable rate. To my mind no one knows what is a reasonable rate. The deliveries of these tribunals go back to the original situation which by the conditions complained of has been disturbed. But what was this original situation, and what inherent principles of right were announced by it? It is like "the good old times"—exactly when were these "good old times" to which we so feelingly refer?

MAX WEST: The Supreme Court of the United States has disclaimed its own ability to determine questions of fact with relation to railroad rates. I refer to a South Dakota case which arose perhaps a year after the Nebraska Freight Rates case. In this South Dakota case the court laid down the principle that questions of a statistical nature should be referred to a master in chancery, who should investigate and report the facts to the court, which could then determine the question of law at issue.

I want to add a word of appreciation of Mr. Prouty's most admirable address, which it seems to me is quite unanswerable. I think it is rather useless, however, to

discuss the question whether railway transportation is a private or a public function. But the true reason why we must have governmental limitation of rates was suggested by Mr. Prouty when he said that the excessive price of coal is a tax, and that an extortionate railway rate is a tax. Any extortion through monopoly is a tax, or, to put it in a less demagogic and a more scientific way, the excess of monopoly price above cost—allowing, of course, for interest, earnings of management, etc.—that excess is in all cases a tax; and that is certainly true where the monopoly is due to legislative action, such as the assignment of the power of eminent domain to a railway corporation. The power to tax is the power to deter, to prohibit, or even to destroy; there are no limits to the power of taxation. It is a dangerous power to delegate to a private corporation.

C. S. WALKER: The parties concerned in this discussion are the producer, the public carrier, and the consumer. The public carrier by means of his perfected organization will get his share of the production of wealth, without much interference on the part of any one else. In almost all the production of the present time the tendency is to form great trusts, so that the producer's rights in the natural evolution of things will be cared for. The only doubt is as to the agriculturist, the producer of wealth from the soil. He has not yet learned how to organize, and therefore his rights should be protected. The third party is the consumer, representing the seventy million people of the United States. Who shall care for the rights of these millions? You have seen this morning that it is impossible for each one of these seventy millions to bring a case and carry it to the Supreme Court. There must be some repre-

sentative to look out for the interests of the consumer, some way devised by which the consumer's rights shall be secured. The Interstate Commerce Commission shows how this may be done. Either this Commission must be given power to protect the consumer through the regulation of rates, or there will be a public demand that the government own and operate all railroads. Some means must be devised whereby the three parties at issue, the producer, the public carrier, and the consumer, shall have their rights fully guaranteed.

FREDERICK C. CLARK: I do not think we have reached the bottom of this question of regulation by commissions to-day. Judge Cooley once said: "The railroad problem, summed up in one word, is the rate problem, and the establishment of the Interstate Commerce Commission is a new step in the right direction of the states' or the federal government's right to interfere in industries to this end; but we will not in any case as a commission render opinions until cases are presented to us in a formal way." In this reply there was a forecast of the passivity of the Commission. Sixteen years' experiment has shown us what can be done, and we know what has been done, even though the courts, as in the Counselman case, have sapped the Commission of its power.

It seems to me that there is some supplementary machinery necessary in connection with the idea of regulation by a commission. While the principle of a rate commission as suggested by Mr. Prouty is all right, there should be also a board of inspectors of railway accounts. The *books* show all railway operations, and government accountants, properly empowered, could settle many cases in advance, and prevent scores of

others from ever becoming cases at all. As matters now stand, as fast as regulation catches up with railway violation on one point, the roads are doing something else at another point. If we had the power periodically to inspect the books and publish the inspectors' reports in the daily press, I think we could accomplish a great deal. In short, adopt a policy along the line of that now applied to national banks. That is the proper kind of publicity. When you have inspectors to go around among these railroads, then you have got right at the kernel of their affairs and of the problem. If the railroads were desirous of living up to law, then the same report in all its details which the statistician would put before the president and board of directors they would submit to the inspector of the government, or he could make it for the commission. We would then have the railroads on their right lines, while they, at the same time, could depend on the public's not doing aught but what was reasonable and just.

I do not think that the public wishes the railroads to earn less than six per cent on capital stock actually invested, but when they earn twelve per cent, then double their capital stock in order to show a less rate of dividend, and keep on "watering" their stock to keep up with their earnings and to keep down the rate, pleading poverty and low rates to the people, there is something radically wrong which the public will not always endure. No right thinking man desires to take one penny from the railroads unjustly, but the evil policy of stock watering, which is the real cause of the present rate problem, should be changed and brought under effective control by the government. This capitalization problem, moreover, lends itself more readily than the tinkering with rate sheets to the theory of regulation by com-

missions and inspectorial boards. It is just as essential in American industrial life that we regulate railways by inspection as that we regulate banks.

CHARLES W. MIXTER: It has been represented in this debate that *laissez faire* economists hold that in the general march of progress everything will come right. I do not think that they have maintained that. They know that this is an imperfect world, and therefore take to heart the lesson from Burke, that it is one of the chief attributes of statesmanship to recognize the evils of every system which must be tolerated.

We have had this morning, in the main, simply a heaping up of alleged evils in respect to the way railroads carry on the transportation business. The point is, assuming these evils, where is there any fund of wisdom in government or any device of government which can lessen existing evils without putting others in their place?

Most of us regard the putting of the tariff question into the hands of a commission as a simple-minded idea, for the tariff question is essentially a political question, a matter of the log-rolling of local interests. Where the tariff question is now, the railroad question, under a thoroughgoing régime of state interference, of which, thus far, we have had no experience, would in time come to be. Just as now you cannot get the tariff question out of politics, then you could not keep the railroad question from getting into politics. The notion that railway rates could be permanently regulated by a non-partisan tribunal, representing the whole country, seems to me to be out of the question. Do we want the same sort of edifying spectacle in respect to railway rates which we now have whenever a tariff bill is framed?

THEODORE MARBURG: Mr. Prouty's suggestion is a bold one, but I quite agree with the statement of Professor Taylor that in respect to services of this nature we shall presently be facing the alternative of government control or government ownership, and we ought to consider well what the latter means. I have myself undergone a decided change of opinion with regard to it, now believing that for us in America extensive state ownership would be a misfortune. It is not so much a question of the ability of the state to conduct these services economically and effectively, but rather the multiplying of the number of government employees under a democratic form of government. Against this France offers us a warning. We must not forget that when we take such a step it is not for to-morrow only, but for the long future. If we should turn the railways over to the government, presently there would arise a demand for the acquisition of other utilities; some unwise practices on their part would precipitate it. The government employee seldomly works as honestly as the man in private industry, and there would arise the danger of setting up a great bureaucracy and body of government employees who would sap the life of the state.

HENRY B. GARDNER: As I understand the gist of Mr. Hines' remarks, if the Interstate Commerce Commission would give up prating of their lack of power and exercise the power they do have under the law, they might exercise effective control over the rate. I understand further that there is no question as to what they can do. They know they can declare a rate to be unreasonable, but have no power to declare what a reasonable rate is. I wish Mr. Hines or some one would tell us more specifically how under these conditions this

Interstate Commerce Commission can exercise effective control.

WALKER D. HINES: Before I proceed to sum up I would like to have Mr. Prouty reply to my question as to whether there is a single case in which the courts have overruled an order of the Commission except on the ground that the Commission had failed to pursue the course prescribed by statute, or that its order was unjust upon the facts.

CHARLES A. PROUTY: It would be unprofitable for me to go into the cases decided by the Commission and reviewed by the courts. To my personal remembrance neither the Supreme Court nor Circuit Court of Appeals has ever reversed the Commission on a question of fact. It has always been that the Commission did not correctly apply the law; that it did something the statute gave it no power to do; that it considered some testimony that it should not have considered; that it refused to consider some testimony it should have considered; that it overlooked some fact that it ought to have taken into account. In the live stock case the court held that the Commission was right on every question of fact, but had overlooked one other factor which the Commission did not deem important, and the court sent the case back to the Commission. Mr. Hines says the Commission has the power to enjoin by proceeding in Circuit Court. There is pending in the Supreme Court a case which the Commission began seven years ago.

WALKER D. HINES: Which case, Mr. Prouty?

CHARLES A. PROUTY: The case against the Missouri Pacific to enjoin discrimination against Wichita.

That case the Commission has prosecuted with all due diligence. Last spring the courts did enjoin violation of rates. I may say that those proceedings were inaugurated on the request of the railroads; some of the railroads were in the position of wanting to be enjoined.

WALKER D. HINES: I understand then, Mr. Prouty, that there is not a single case in which the courts have overruled the Commission except where it had failed to proceed according to the statute, or where its order was wrong on the facts?

CHARLES A. PROUTY: I think the courts have never reversed the Commission on a question of fact.

WALKER D. HINES: That, of course, is another question. I merely wished an answer to my inquiry. Of course if you do not wish to reply to it, it will have to go unanswered. I reassert that every time the Commission has been defeated in the courts, it has been due either to its usurping some power it did not possess under the act, or to its reaching conclusions inconsistent with the evidence which it ought to have considered, with the result that the court has condemned the Commission's finding; and further that there is no instance of a meritorious order made in accordance with the statute which has not been enforced. Now, after fifteen years, the Commission says it does not know what it can do; and with that as a basis, Mr. Prouty makes the broad assertion that the Commission can do nothing.

I want to make specific reference to the live stock case. In that case the railroads imposed on the rates on live stock to Chicago an additional charge of \$2.00, calling it a terminal charge. The Commission considered the matter and announced that it was looking at

the whole service, that the terminal charge was in fact part of the rate to Chicago, and that the rate, having been reasonable before, with the addition of \$2.00 was unreasonable. Subsequently the railroads applied to the Commission, pointing out that on a material part of their traffic they had reduced the rates to Chicago. The Commission having refused to change their findings, the case came to the Supreme Court, which, while conceding that any unreasonableness might be corrected, condemned the Commission's order on the facts because it had ignored the reductions which had been made. In a number of other cases that has been true. In the Import Rate case the Supreme Court said that the Commission had no power to make the order it attempted to enforce, and also clearly indicated that it ought not to have made it if it had had the power. The same was true in the Alabama Midland case, and also in a number of decisions of the Circuit Court of Appeals. I do not ask you to accept my word, and I would rather you would not accept Mr. Prouty's word, but read the decisions and decide for yourselves. The matter is too important to jump at conclusions or accept the statement of interested parties.

I desire now to answer a question that was asked me, "How can the Commission exercise control by the mere injunctive process?" Before answering directly I wish to say that this method prescribed by Congress ought not to be thrown away as worthless until it has been tried and found to be so. There has never been a single case where that injunctive process has gone through the courts and found to be worthless. As I recall, the only case which has gone to the Supreme Court and been sustained is the Social Circle case, and the readjustment in that case was promptly made in the

very terms of the Commission's order. There are many other cases in which the railroads have obeyed the Commission's orders literally.

Replying directly to the question: The Commission condemns a certain rate as unreasonable, giving or being able to give its reasons therefor, and orders the carriers to cease from charging that rate, say \$1.00 per hundred pounds. Although the Commission has no power to say you must charge that, if the order is well-founded the carrier will not make an insignificant reduction and purely technical compliance, for the Commission, being familiar with the facts, can readily make a further order. If the carrier believes it can convince the court that the Commission's order is wrong, but when the case gets into court is unable to do so, then the Circuit Court enjoins the carrier from continuing the unlawful rate; and clearly the railroad will not care to risk a purely technical compliance, because they are not courting litigation. There has not, as far as I am advised, been a single case of this purely technical compliance with the Commission's order.

The action of the Supreme Court in the Nebraska case and its similar action in the Reagan case illustrates how the merely injunctive process may be effective. The court, finding the rates fixed by the state authorities unreasonably low, stated that it had no power to fix the rates that might be charged, that its only power was to restrain the enforcement of unreasonably low rates; yet so far as I am advised this purely injunctive process against unreasonably low rates was a substantial protection to the railroads. The state authorities did not undertake a merely technical compliance with the injunction of the court by fixing rates merely a fraction of a cent higher. There is certainly no reason to believe

that railroads would be any more disposed to defy a decree of the federal courts by making a mere technical compliance than would a state railroad commission. The railroad's property is always within reach and subject to regulation and control; it is always held to the strictest responsibility; it is especially sensitive to public opinion; it does not want litigation. Certainly until the contrary is proved by actual experience it is entirely proper to assume that the railroads would comply in a substantial way with any injunction against unreasonable rates. In the absence of proof to the contrary the Congressional procedure ought not to be condemned as worthless.

CHARLES A. PROUTY: I wish to say just three things.

First. Mr. Hines has told you that the Commission now has ample power to prevent the imposition of unreasonable rates. This is a theoretical statement, based upon his interpretation of the language of the act to regulate commerce. Beside it let me put the practical statement of an actual railroad operator.

In the recent hay case the Commission found that the railways in official classification territory had unreasonably advanced the rate on hay, thereby exacting from the public some two millions of dollars annually beyond what was just. We directed the carriers to desist from that advance, making the best order which our interpretation of the act and of the decisions of the courts would permit. The traffic manager who had assumed the burden of the defense in that case straightway issued to all the defendants a circular in which he said that of course no attention would be paid to the order of the Commission, for that body had no authority to make the

order, and if it had, there was no way in which that order could be enforced. Here, I say, is the practical application of this act to an actual situation by a railroad operator. You can take your choice between the theory of Mr. Hines and the condition which exists.

Second. If, as Mr. Hines says, the Commission has these ample powers under the act as it now stands, it can do no harm to enact such legislation as will clearly define those powers and clear up all uncertainty. Give us two or three sections of clean-cut English, which shall inform both the Commission and the public of its duties and its authority. Then can the Commission act intelligently and the public obtain the benefit of whatever power it has.

Third. Mr. Hines tells you that the Commission is composed and will be composed of superannuated politicians, with no practical knowledge of railroad operations. Personally I have never been much of a politician. Aside from membership in the popular branch of the Vermont General Assembly as representative from my native town, I had never held and never been a candidate for any elective office when appointed to my present place. Up to that time I had been merely a railroad lawyer, just like my friend Hines. I knew no more about these matters then than he does now. Since then I have devoted six years—the seventh part of an average business life—to the conscientious study of these questions. The most stupid man in that time should acquire some little knowledge of traffic conditions; and three of my associates are older in service than I am.

However, I do not care to discuss what Mr. Hines asserts or insinuates with respect to the insignificance and incompetency of the present Commission; but I do say that seldom in the last half century have five men sat

together as court or committee or commission of greater practical wisdom than those who made up the first Interstate Commerce Commission. There was Judge Cooley, known wherever the common law is known, known more widely than any judge who ever sat on the supreme bench of the United States with the exception of Marshall and Story; there were William R. Morrison, a leader of the House of Representatives when no mere politician could assume that role, Aldace F. Walker, the ablest railroad lawyer in New England, a man subsequently honored with the highest places within the gift of the railroads themselves, and Augustus Schoonmaker, a former attorney general of New York and a leader among the lawyers of that great state. The remaining member, General Bragg, if not fully the equal of his associates, was at least the best man available from my brother Hines' side of the Ohio River.

The discharge of a great duty draws to itself great ability. That Commission was great because it was supposed to be charged with great responsibilities. If the personnel of the present Commission be small, it is because its functions have been belittled. Make the Interstate Commerce Commission what it was once supposed to be and what it should be, and you will have no criticism to pass upon the members of that body or the manner in which its duties are discharged.

THE DYNAMICS OF THE WAGES QUESTION

JOHN B. CLARK

Students of the wages question have sought chiefly to discover the "natural" standard to which, at any one time, the pay of labor tends to conform. It is the rate which would prevail if the forces that are continually changing the shape of industrial society and modifying its action were to cease to act and if competition were to work in ideal perfection. This static rate, toward which actual wages are always tending, is fixed by the productive power of labor itself, and whatever changes that productive power raises or lowers this standard. Working men are creating daily certain amounts of wealth; and if the changes and disturbances that social progress implies should cease and if certain causes of friction were removed, every man would get, as his pay, the amount that he actually produces. Ten years hence the men will work in a different manner and with different appliances, and if we could then stop the influences of change and let competition again do its full work, we should find them getting amounts that would correspond to their changed powers of production.

The marginal productive power of labor furnishes the standard of wages, and in general this is tending upward, and the actual rate is pursuing it. The movement is the resultant of many influences, some of which tend to depress the rate while others tend to raise it. Of these various influences some may be classed as normal and others as abnormal. From a dynamic point of view it would not be in accordance with nature that the actual rate of pay should coincide with the standard rate. When a dynamic influence raises the standard, certain

elements of natural friction prevent the actual rate of pay from instantly overtaking it, and it is to be expected that at best the rate of wages will actively pursue the rising standard, but will lag somewhat behind it. In a dynamic view the condition is natural if the upward movement of the standard goes on at a normal rate and if the actual wages lag behind it by a normal interval.

The terms "natural" and "normal" imply an accordance with unperturbed nature, and for our purposes one chief perversion is that which interferes with the free movement of labor and capital from one occupation to another. This causes the actual rate of pay to lag unduly behind the standard. This also reduces the incentives to progress and renders the upward movement of the standard itself unduly slow. Monopoly is the comprehensive name for the great majority of the influences which act in these ways. The existence of an interval between the standard rate of pay and the actual rate is, as may easily be shown, the condition that affords entrepreneurs' profits; and these should be the lure to invention and to all the improvements which enlarge the general product of industry. When they act in this way they are forever thrusting the standard of pay forward, and are not retarding the pursuit of that standard by the actual rate. Every such improvement not only increases the ultimate power of labor to produce wealth and to get it, but also accelerates the increase of the amount that, from the first, it gets. If, however, labor could instantly get all that a recent improvement enables it to produce, profits would be annihilated and the incentive to further improvement would be removed. It is essential that the standard of wages should forever outstrip the pursuing

actual rate. In the sharpest contrast with the creating of an interval between the standard of wages and the rate of actual pay by influences that thrust the standard forward and cause the pursuing rate to move faster in the effort to overtake it is another set of influences which enlarge the interval by thrusting the pursuing rate backward. These cause the reward of labor to fall abnormally below its product, and they further check the increase in the product itself.

For the good of laborers their advancing rate of earnings should lag behind their advancing power of production only because this power receives, ever and anon, a forward impulse, and not because the actual rate of earnings receives a backward impulse. For their good, also, the amount of the lagging should be that which will have the greatest effect in accelerating the advance of both rates. Standard pay and actual pay are like a tug and its tow—the two do not move most rapidly when the tow line is very short, and neither do they move thus when it is extremely long. There is a certain length of line which gives the greatest speed, and so is there a certain amount of entrepreneurs' gains which, when they come from legitimate sources only, cause the most rapid advance in the rate of laborers' earnings and afford the most inspiring outlook for the future of the working class. Invent a new machine, discover a valuable substance, and you at once put the ultimate producing power of laborers higher, by a minute fraction, than it formerly was. The actual rate begins at once to move toward the higher standard, but long before it can overtake it productive changes occur in a thousand different places in the industrial system, the standard moves upward again and again, and the pursuit of the moving goal continues forever.

We can now very briefly examine an influence which, however it may effect the rate of progress of the standard of wages, certainly causes the actual rate to lag by an abnormal interval behind it. Monopoly is the general name of this influence, and it may be exercised by a class of capitalist entrepreneurs for their own benefit, or it may be in a like manner exercised by and for a body of laborers. It is a means of taxing the general body of independent producers. Monopoly may conceivably retard the rise of the standard of wages and at the same time cause the actual rate of pay to lag by an abnormal and increasingly long interval behind it.

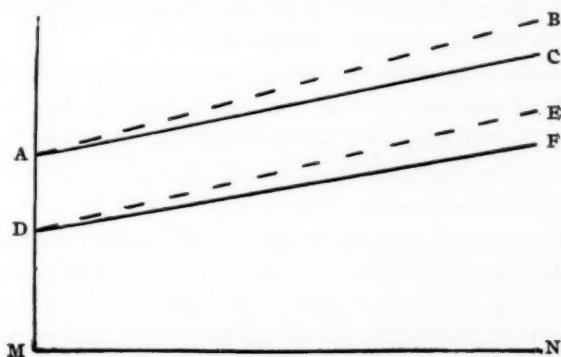


FIGURE I.

In figure 1 measurement along the line *MN* expresses time and that along *MA* expresses wages. The dotted line *AB*, rising from the horizontal base line, represents the standard of wages as it would rise from decade to decade with natural rapidity under the influence of competition. *DE* represents the actual rate of pay of labor, rising, under competition, with the same rapidity as the standard, but keeping by a fixed interval below

it. *AC* represents the rise of the standard as it is retarded by monopoly, and *DF* represents the actual rate falling farther and farther below this depressed standard. This is the worst of the possible typical effects of monopoly. In this figure the lines are straight, since the rapidity of the rise of the standards and of the actual rates of pay may be treated as approximately constant during limited periods. The present studies do not afford the means of determining what changes in the rapidity of rise would actually take place.

It is conceivable, however, that monopoly may not check the advance of the standard itself, but may cause actual pay to lag behind it by an increasing interval, in which case *AC* would coincide with *AB*.

Again it is possible that the standard rate may rise with natural rapidity and that the actual rate may rise with the same rapidity, but may lag behind the standard by an interval that is constant, though abnormally large.

The case of temporary monopolies secured through patents scarcely comes within the limits of this brief study. It is peculiar in that the patents cause inventions to be made that would not have been made otherwise. In that case they have an effect that is represented in figure 2. The standard is made to rise at an accelerated rate; and though the actual pay of labor lags behind the more rapidly rising standard by a larger interval than, in the absence of patents, it would have lagged behind the lower standard, the rate of its rise is as rapid as is that of the standard itself. The interval is constant. From the first labor gains something as a consequence of an invention that would not have been made and applied if patents were not granted, and the amount of this gain is progressive.

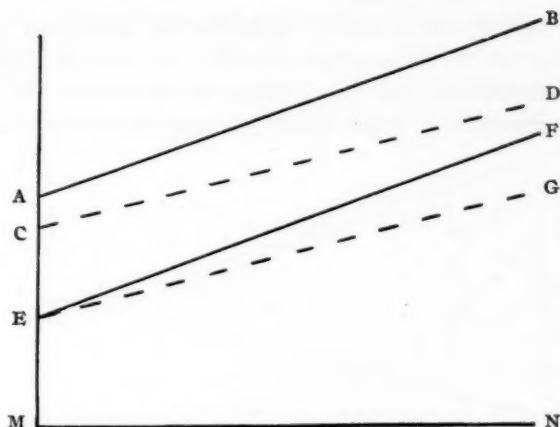


FIGURE 2.

M N, time.

M A, wages.

A B, rise of standard of wages induced by patents.

C D, rise of standard of wages unaffected by patents.

E F, rise of actual rate of wages induced by patents.

E G, rise of actual rate of wages unaffected by patents.

In so far as patents give a monopoly of inventions which would have been made in any case, their effect is illustrated by figure 3. They impose a fixed tax on labor, leaving the rapidity of the increase of its gains unaffected. Of monopolies of other kinds this is, in a general way, the actual effect under conditions that are attainable.

In so far as some consolidations which are more or less monopolies do, as a further change, make large economies, the total effect which they have on the condition of the great body of labor may be represented by still another figure. The facts to be expressed are: (1) that the consolidations use labor and capital efficiently, and so raise by an absolute amount the productive power of labor; (2) that they do not necessarily check

the rapidity with which inventions are made and applied, but do increase the rapidity with which capital is accumulated, and by so doing accelerate the rise in the standard of wages itself; and (3) that they cause

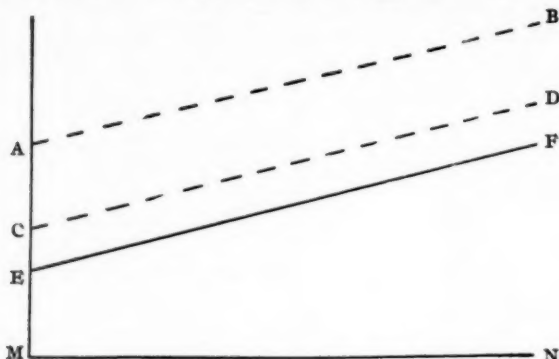


FIGURE 3.

MN, time.

MA, wages.

AB, natural rise of standard of wages.

CD, natural rise of actual wages.

EF, rise of actual wages under patents which do not increase useful inventions.

actual pay to lag behind the new standard by an interval which is absolutely greater than is the corresponding interval where no such consolidations exist, but which is approximately a fixed interval. This condition offers to labor a somewhat accelerated rate of increase of wages as an offset for the tax which, during a preliminary period, it pays to monopoly. This case is represented in figure 4.

In a rude and general way this figure describes the best results that can be hoped for in the near future as a consequence of consolidations of capital and of labor; but neither this result nor any approximation to it is to be expected unless the force of competition, at least in

that potential form with which we have become familiar, shall continue to work efficiently. Moreover, such efficiency of potential competition is not to be expected unless the regulating power of the state shall be effectively

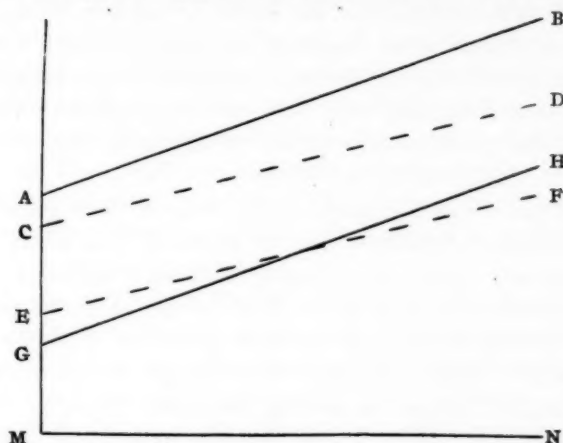


FIGURE 4.

MN, time.

MA, wages.

AB, rise of standard of wages under consolidation.

CD, rise of standard of wages in absence of consolidation.

EF, rise of actual rate of wages in absence of consolidation.

GH, rise of actual rate of wages under consolidation.

used. If it is not so used and if potential competition passes more and more into the realm of unrealized theory, labor will certainly experience a depression of its rate of pay which will carry it to an abnormal distance below the standard to which it should conform, and it will have reason to expect a retarding of the rise of the standard rate itself. This would mean both a sterilizing of productive powers at any one time and a partial paralysis of forces that naturally give to these forces, from time to time, greater and greater efficiency.

We must assume without argument that an increase in capital raises the standard of wages, that an increase in the number of laborers tends to depress it, and that the economies which result from invention and from efficient coördination of the forces of industry raise it. These causes alone might be expected to yield, as a grand resultant, a perpetually rising rate of pay brought about by a standard that is forever rising, and an actual rate that pursues the standard, though it remains by a nearly fixed interval in the rear.

What we have actually to deal with is these general influences complicated by the action of two kinds of monopoly which are showing a certain tendency to coöperate with each other. This brings us to the portal of a region in which doubtful questions of vital importance press upon us. The energy of particular industrial groups is turning more and more in the direction of making gains through some use of power which monopoly gives to tax other groups; but invariably do these gains mean a net loss to the community as a whole. There are "grabs" or perversions of distribution which reduce general production. The big establishment is economical by reason of its size; and if the power of competition, actual or potential, deprives it of the power to tax the community, it is as welcome as any other agency which increases the productive power of labor. In that case, however, it is only outwardly and apparently a monopoly, since it has not the power which genuine monopoly implies of limiting the supply of such goods as it produces and of excluding competitors from its field. What is most interesting and important is the question whether trade unions in themselves are in the way of producing genuinely monopolistic effects, and whether they are

beginning to coöperate with trusts in such a way that the two consolidations together impose on the public a monopolistic tax which neither could impose if it acted by itself.

In the case of an industrial group which includes both capital and labor the reduction of products means the thrusting of some labor into more and more sterile fields; and it therefore involves a reduction of the earning power of this excluded portion of the working force as well as of all labor that was originally in those fields. The problem of presenting this is the problem of rescuing potential competition from extinction and of retaining it as an adequate regulator.

In the reducing of the output the trust may be aided by the laborer's union, provided that the union restricts the number of men who are allowed to practice the craft at all and also reduces the product that a workman is allowed to turn out. What it is most important to determine, on the basis of general principles, is how much a trade union is impelled to do in mere self-interest in the way of such exclusion and restriction. The limits of this paper preclude doing more in this connection than to advance certain theses which, as I claim, a fuller argument would establish.

1. The policy of limiting the number of men who are allowed to practice a craft is the most effective policy which a trade union that wishes to use the power of monopoly can adopt. It assists the employer in his effort to keep down the supply and to keep up the price of his product, and it enables the workers to force him to give them a share of the gains thus made.

2. This policy makes the workmen the antagonists of their employers in one part of the distributive process and allies in another part. They may fight the em-

ployers fiercely enough when the issue at stake is how much of what is extorted from the public shall be made over to labor ; but in making the extortion the interests of employers and employed are in harmony, and they are, as in a vague way the two parties are often called, allies and not enemies.

3. The policy of easy-going labor, by which the product is reduced, is designed to provide work for a given number of men now in an employment without increasing the amount of the product to a point at which the price would be reduced and the returns of the industry as a whole diminished.

4. This measure necessarily gives to the laborers in the trade smaller wages than they could get if they reduced their product in a corresponding degree by restricting the membership in their unions. By this latter plan it might be possible for each man to turn out more pieces of product and still get the same price per piece that he now gets.

5. The go-easy policy is, on general grounds, good only as a temporary expedient in the interest of the men already in the particular union that adopts it. It is always injurious to labor outside of the union which resorts to it ; and a system in which all labor were organized and in which each union were taxing the others by a curtailing of the product of its own work would be under the worst blight that monopoly in any form thus far suggested could cause.

6. The amount that can be gained by a monopolistic policy on the part of labor is limited, as is the corresponding gain on the side of capital, by potential competition. Make wages too high in the region where restriction and exclusion rule, and labor from without

will climb over the barriers which are erected to protect the favored territory.

7. Under a régime of potential competition the amount of gain that can be extorted by any policy of restriction and exclusion on the part of the capital in an industrial group may be described, in a general and approximate way, as a fixed amount. More than that amount extorted from the public, even though trusts and trade unions unite in the effort to get it, will bring into action labor and capital from the outer region into which monopoly thrusts them.

8. If we can assume a rate of rise of the standard of pay that is at least as rapid as it would be in the absence of consolidations of these two kinds, the result is a rise of the actual pay of the excluded labor itself which proceeds at an equal rate. Independent labor, paying its tax to monopoly, may find its gains still increasing from decade to decade. The fixed reduction of its earnings at any one date is of slight importance in comparison with the rapidity of the increase of those earnings. The length of the hawser that connects a tug and its accompanying barge is of little consequence as affecting the duration of the voyage of the barge across the Atlantic, while everything that affects the speed of the tug is of the highest consequence. Of vital importance to labor is the effect that consolidations may have on the rate of increase of its gains. Labor may pay a steady tribute to monopoly and still attain, in time, a standard of life that is encouragingly and even inspiringly high. If the standard can be made to rise even by a minute degree more rapidly than it would rise in the absence of consolidation, the fixed tax becomes, in the end, insignificant. With a fraction of a knot per hour added to its speed the barge that carries the fortunes of

working humanity may reach, by the end of the twentieth century, a remoter and happier port than it could have reached in the absence of those consolidations which through the whole intervening period will continue to tax it.

THE DYNAMICS OF THE WAGES QUESTION— DISCUSSION

JOHN A. HOBSON: I shall not dwell upon the large portion of the paper in which I am thoroughly in accord with Professor Clark, but shall confine myself to certain points upon which I differ from his interpretation. I am very strongly tempted to spend my ten minutes upon the question whether it is possible or not to make any estimate of the specific measure of the value of the labor of any individual working in coöperation with his fellows. Personally I am unable altogether to accept the view that it is possible, even with perfect fluidity of capital and labor, to say that the "marginal" laborer will get as his pay the amount which he actually produces, or that we have any means whatever of measuring what he does actually produce as an individual in a society so highly organized as that in which he finds himself to-day. My point is, to put it briefly, that we have no means of specific measurement. Professor Clark here and elsewhere bases his idea of this measurement upon the condition of marginal labor, and he says you can measure the productivity of that marginal labor. I am unable to accept that point of view. I do not think that the productivity and pay of the marginal laborer can be measured. In the first place we have to decide what determines that margin itself. Supposing the margin to be determined, we have, I think, no means of imputing a specific product to that margin; and assuredly if we could impute a specific product to that margin, we could not ascertain its value except by recourse again to the social forces

which determine this value, and which, therefore, determine the real pay of the laborer.

A slight example will make it clear. Suppose there are two men who are able to produce. *A* working alone can produce a product which we will call 2 in size. *B* can produce 2 working alone. If *A* places his labor co-operatively with *B* they may be able to produce 6. Now then either *A* or *B* may be treated as the marginal laborer, for it may not be profitable for them to attach to them a third man; and it is suggested that if you take away the marginal laborer, then the diminution of the product will measure his profits—his pay. *A* and *B* individually can each produce 2, but collectively they can produce 6. Treat *A* as the marginal laborer and take him away, you will reduce by 4 the product. Then, according to the theory under discussion, the marginal laborer produces 4. The same result will follow if you take away *B* instead of *A*. And if you add the two marginal products they will make not 6 but 8, which is absurd. If the argument is carried still further and applied to a more extensive organization of society, it seems to carry with it the result that you cannot compute the separate product of any skilled labor and that you cannot say its rate of pay, still less the rate of wages in the trade, is determined by the specific product of marginal labor. Business from the scientific point of view, I would suggest, is to be looked upon as an organic compound of capital and labor.

I would also like to say something about the claim on behalf of the entrepreneur. Is it a fact that the entrepreneur makes the great body of inventions? He certainly has the habit of collecting and utilizing them, but he does not as entrepreneur make the main body of inventions. Neither does he make the main body of

other industrial improvements. He is a middle-man in regard to these matters. Of course I do not pretend that the entrepreneur does not play an important part and does not deserve a certain share of the resultant gains, but he certainly does not in my judgment do all that is imputed to him here. The great accessions to our wealth are due not so much to monopoly of capital and labor and the organization of it as to specific applications of the natural sciences to methods of industry. That is to say, the work is commonly done by the servants of the entrepreneur who get a very small proportion of what would be equal in this theory to the actual value of the increased productivity which their labor creates. A great many inventions, including the greatest inventions of all, are not made for profit, and would be made if no profit attached to them. Those which do require some incentive of profit do not require the enormous profit which the entrepreneur is often able to take for them.

What Professor Clark has said upon the subject of monopoly and restriction I very largely agree with, and I am glad of the emphasis which he laid upon the fact that monopolies do tend to reduce general production; that it is essential to the man who wields the power of a monopolist that he shall reduce the total amount of wealth which is made and distributed in a community. Unless he can restrict the output in some way he is not able to raise prices and therefore make his monopoly good for his own profit.

I thoroughly agree with Professor Clark in his assumption that capital and labor are trying to do the same thing. Labor organized in trade unions has in itself a definite object of securing a monopoly of the particular labor market. It occupies itself in doing the

same thing largely by the same means as does the capitalist who desires to corner and hold for his profit a monopoly in a stated commodity. Of course the most important practical use of this paper turns upon the suggestion of Professor Clark's, and I think it a fruitful one, that we may be confronted with a joint combination of capital and labor.

It is not a mere theory, as Professor Clark has shown; in England it has been in practice for a number of years with a certain degree of success in some trades. There you will find a combination of masters formally agreeing with labor unions to restrict the output, to raise prices, to distribute wages in proportion to profits, allowing the labor unions to have their own accountants to examine the books. Moreover the employees—and here is a most essential point—build up a fighting fund to keep outsiders from coming in. That has not always succeeded. In the trade where it started it failed after a long and very successful career, but in other trades it has been tried, and it has been suggested in the coal trade in England that the Employers' Federation and the Coal Miners' Union be organized upon that basis. If you consider that principle applied to one of the fundamental industries of the country, you will realize the significance of what I think is to be the next stage in the evolution of industrial order.

Favorable as I am to all these combinations, favorable as I am to the joint agreement which is suggested here in America as the most important means of harmonizing capital and labor, I want in concluding to say I do not quite understand what remedies Professor Clark really provides against the dangers involved in these trade monopolies. He suggests in one passage that state regulation may have some place, but later on towards

the end of his paper he suggests that there is some natural limit to the power of monopoly, viz., that outside capital and labor will be strong enough to break the barriers. It may and it may not. As the art of combination becomes better understood, it may become more difficult for outside labor to enter and get the highest profits and wages existing in the chartered area.

Finally, says Professor Clark, labor may pay a steady tribute to monopoly and yet contain in itself a standard of living encouraging and inspiring. Not by virtue of economic law will it be able to do this. Combinations do not ultimately make for progress. When they are perfected they check industrial progress. There are numerous examples to show the way in which a perfected combination will find it to its interest to keep out further inventions.

THOMAS N. CARVER: I am in rather a difficult position, feeling called upon both to defend the productivity theory against the criticism of Mr. Hobson and to attack it from another standpoint. If, for example, *A* working alone can produce 3 and *B* alone can produce 3, but working together they can produce 2, where is the marginal theory? Take away either one and you will increase the product. Now I do not conceive of this as in any way an argument against the productivity theory, for the simple reason that the conditions which I have assumed do not exist. That is, there is no community where the addition of one more worker would reduce the total production of the community. Neither do I conceive it to be a successful attack upon the productivity theory to point out that where *A* working alone can produce 2, and *B* working alone can produce 2, *A* and *B*, working together, can produce 6. This

illustration has no application to the question because these conditions do not exist in industrial society as we know it. There is no society to-day, so far as any of us know, where the doubling of the number of laborers would more than double the product. My understanding of the productivity theory is not that it is an explanation of everything that may possibly take place in the universe, but that it is an explanation of the wage system—an explanation of wages under existing industrial conditions, where the point of diminishing returns has long been passed, and where additional increments of labor produce less. Where these conditions do not exist I do not understand the productivity theory applies at all.

However, it seems to me that it is only by an unwarranted use or expansion of the term "productivity" that it can be adopted as a complete explanation under the present system. It requires too much refinement to reduce the wages of teachers or of street sweepers to a productivity basis. I would rather put it on the general ground that the price of any individual unit of labor depends, as does the price of almost everything else, upon the demand for it. One reason why the unit of labor may be wanted is because of the immediate utility of that labor, as in the case of the teacher, the singer, or the street sweeper. Another reason why the unit of labor may be wanted is because it will add to the value of the piece of material upon which it is expended. It is in such cases alone that the productivity theory in strictness applies. The more value a given unit of labor can add to the material upon which it is expended, the more it will be wanted; and the less value it can add, the less it will be wanted; and consequently the more it can add, the higher price it will demand in the market.

It seems to me that when we consider that there are other shares in distribution besides wages, there may remain profits even though the wages do actually correspond to the standard which determines them under static conditions—that is, provided other shares lag behind, provided the share of capital, as the share of the owner as distinguished from that of the manipulator of capital, lags behind.

Again I am by no means certain that the tendency of inventions and improvements in production will necessarily increase the marginal productivity of labor or increase its value. Statisticians have attempted to show that wages have actually increased in the last fifty years, and with some degree of success, though even here I believe the increase is not so apparent in the lower grades as in the higher grades of labor. I do not know of any one who has thought it worth while to show by statistics that the welfare of the capitalist class has improved in the last fifty years. The tendency of improvements, I should say, is primarily in the interest of the owners of capital. They get the chief benefit in the end. The manipulators, those who handle the capital, get the profit in the first place, which gradually distributes itself, an almost microscopic part going to increase wages and the main part going to increase the general income of the owners of capital.

What is a labor-saving device except an opportunity for the use of more capital than could have been used before? It is sometimes urged that the labor-saving device lessens employment, but it is also a product-increasing invention, as has often been shown, for when a labor saving device has come in and a product has been cheapened, much more is used; and therefore, though it

takes less labor to produce a given unit of product, so many more units will be used that really more labor is employed in the long run. That is true in a much greater degree of capital. That is, if the enlargement of the consumption of the article increases the employment of labor somewhat, it increases the employment of capital in a much greater degree.

These inventions and improvements have made possible the employment of vast funds of capital which could not have been employed at all if the inventions had not been made. Those who are in the best position to avail themselves of the opportunity which inventions create for using more capital are those who are in a position to supply capital, that is, those whose incomes are sufficiently large to enable them to save and furnish that supply. So here, as elsewhere, the tendency is to give to those who already have.

It seems to me that one very important feature of the dynamics of the wages question lies here. The tendency is, as I have said, sometimes to crowd the man who competes with a machine and does the kind of work that a machine can do. When he is crowded by the introduction of a new machine, he may be forced in a sense out of that trade into a higher kind of labor. When thrown out of a job he may take the trouble to acquire a higher kind of skill. If he can he is benefitted. If he can not he is crowded downward rather than upward. Laborers will gain more in the long run, I should say, by following this line of least resistance upward and getting out of those occupations and trades where they are coming into competition with machinery and getting into those which compete less with machinery. In the long run, when the general trend of labor is upward, when they are continually learning to do a higher kind of

work, then we can expect better conditions for the laboring classes. I have much more hope for labor from this direction than from any other.

EDWARD A. ROSS: I am very glad that Professor Carver brought out the fact that a labor-saving machine is a machine that saves labor and therefore diminishes the demand for labor of a certain kind. Along with the technical progress of our time there has been an unquestionable improvement in the condition of those who furnish labor; but I am not sure that the one is a cause of the other. The real cause is, in my judgment, the *extensive* progress that has so characterized the latter half of the nineteenth century. There have been drawn into the circle of exploitation of civilization enormous quantities of new lands which have been occupied by thousands of men, who, without the intervention of an entrepreneur, have raised the standard of wages, first for themselves, and later for those who stayed at home. There is no doubt that the settlement of Australia, New Zealand, western America, and Argentina have cut down the rentals of European landlords and raised the wages of even those laborers who remained in Europe. The effect of intensive progress, *i. e.*, labor-saving inventions, upon the status of labor is not clear, because in the last two generations the extensive progress has been even more marked than the intensive progress. If, as seems likely, the enlargement of the circle of opportunity by the occupation of new lands is to slacken ere long, we shall soon see whether or not the enlargement of labor-saving inventions will inure to the benefit of the man who has nothing but his labor to dispose of. There is hardly any doubt that laborers are prudent when they object to the importation of coolies in large numbers.

They would be prudent in objecting to the importation of slaves in large numbers; and from a class point of view it might be quite rational for them to deplore the introduction of iron slaves in large numbers, that is, of machines. It seems to me that we are a little hasty in assuming that necessarily and as a matter of course the mechanical improvements which lessen the labor cost of production benefit the man who has nothing to sell but that kind of labor, and who is not an owner of capital.

JOHN B. CLARK: I will accept Professor Carver's defense of the productivity theory, adding that even in the case suggested the test which the theory applies gives an approximately accurate result, since it measures the amount of the possible error. Profits are a lure to inventions, and it is not necessary that they should accrue to the persons who make them. Even though they go to others the fact that these other persons can utilize them creates a market for the inventions, and, in a secondary way, furnishes an incentive to the inventor.

I have not ventured in my thirty minute paper to try to prove my most comprehensive conclusions, and shall not discuss general remedies for monopoly, though I have some of them in mind. I have concluded, though, that labor *may* get a rate of wages that is encouragingly high, provided that certain effective remedies are applied. I do not say that it certainly *will* get such wages. Much depends on public policy and on the successful application of certain measures which I have not time to hint at. The claim that profits might exist if labor moved so quickly to the point at which wages were exceptionally high as to take from the entrepreneur the fruits of its own productive power,

provided that capital did not move with corresponding rapidity, I will concede. The entrepreneur would then transiently hold, as profit, a part of the product attributable to capital. What I had in mind, in the brief statement I made, was that circumstances which would enable labor instantly, as if by the touch of a button, to be transferred from a point of low productivity to a point of high productivity would also transfer capital with equal rapidity.

DISTRIBUTION BY A LAW OF RENT

CHARLES W. MACFARLANE

In following the argument by which Professor Clark has sought to establish his theory of distribution by a law of rent, the present writer has encountered more than one serious difficulty. Indeed so serious do these difficulties appear to be and so important is any contribution from the pen of Professor Clark that the present writer has been persuaded to submit to the Association a paper that may seem like a belated review of the "Distribution of wealth." No objection will here be urged to certain concepts established by Professor Clark that may be regarded as the premises upon which his theory rests. Instead it will be urged that the confusion in the mind of at least one reader is due to a lack of correspondence between the conclusions reached and the premises upon which they are based. We will first attempt to state the premises as succinctly as possible.

Possibly Professor Clark's most important single contribution to economic science is his clear exposition of the difference that exists between the two concepts to which the term "capital" is indiscriminately applied in common usage. If I invest \$100,000 in a manufacturing plant, the average business man will regard both the \$100,000 and the plant in which it is invested as my capital; and yet that they are essentially different concepts can readily be shown. In time the machines in which I have invested this money will gradually wear out; hence if the business is to be regarded as successful, it must give a return sufficient both to replace those machines and to give a net surplus above this amount.

In a word, my capital of \$100,000 must remain intact while the machines or the concrete forms in which I have embodied this fund are constantly changing. Any confounding of these two concepts must result in some confusion of thought; and so Clark has suggested that the term "capital" be confined to the permanent fund, while the concrete forms or machines in which it is at any time embodied he would call "capital goods."

The importance of this distinction cannot well be overrated. Indeed all hope of clear thinking about the problem of interest rests in last resort on a clear and persistent recognition of the difference between these two concepts. Let us therefore pause long enough to note two other peculiarities of the constant or permanent fund of capital. We saw that in a successful business the returns must be large enough to replace the machines as they are worn out. The money thus returned may be invested in similar machines or in entirely different machines or even in an entirely different business without in any way impairing the permanent fund of capital. In a word, we can think of this permanent fund as being mobile or capable of embodiment in any concrete form or capital goods that we may desire. This also carries with it the condition that while the capital goods may vary as to form, the permanent mobile fund of capital is absolutely homogeneous. And so while capital goods are wearing out and lack both mobility and homogeneity, the capital invested in them is a permanent mobile homogeneous fund.

The same distinctions may likewise be established in regard to labor. As Karl Marx long since pointed out, there is an abstract and a concrete labor. This distinction rather vaguely apprehended by Marx has been clearly set forth by Clark. Here, too, there is both a

permanent mobile homogeneous fund of labor and the concrete forms of weaver, blacksmith, carpenter, etc., in which this fund is embodied. If Clark had made no other contribution to economic science, the clearness with which he has established this distinction would give him an assured place as one of the keenest and ablest thinkers in this most difficult field of investigation.

Again Clark has placed every student of the problem of distribution under obligations by his masterly exposition of Von Thünen's suggestion that interest and wages are set by the product of the last dose of capital and labor or by their marginal productivity. Entire clearness on this point was impossible in Von Thünen's times because the distinction between capital and capital goods, or between abstract and concrete labor, had not as yet been clearly worked out. Once this distinction was clearly established, it became manifest that it is the earnings of the abstract funds of capital and labor that are set by their marginal productivity. The supply of such capital first seeks investment or embodiment in those capital goods which yield the greatest return. As these more profitable fields of employment are exhausted, the remaining capital is constrained to find employment in the form of less and less profitable capital goods. If the supply of capital were unlimited, its employment would be extended until it ceased to yield any net return; but as a matter of fact its supply is limited, and hence its employment stops at a point where there is still a net return. As it is a mobile homogeneous fund, no part of it can secure a greater return than any other part, and hence the earnings of this entire fund are set by its marginal productivity. If I borrow money and invest it in different forms of capi-

tal goods, the capitalist from whom I borrow it could not get any more for the thousand dollars invested in a very profitable loom than he could get from a like thousand dollars borrowed from him and invested in the much less profitable or marginal lathe. In a word, it is the least profitable or marginal employment of capital that fixes its earnings in all employments. Any excess above this that may be derived from a particular investment is retained by the entrepreneur against all claims of the capitalist.¹ In brief, then, interest is the earnings of capital as a "permanent social fund," and is fixed by the marginal productivity of that fund. On the other hand any excess above this level rate must be credited to capital goods, in the form either of rent or of profit. If the interest we have in mind is this marginal or level rate, then its transmutation into a differential gain or rent is likely to give trouble to even the most careful reader. To the present writer every such attempt seems to involve an ignoring of that fundamental distinction between "capital" and "capital goods" which lies at the basis of all of this part of Clark's reasoning. It will be necessary, therefore, to follow Clark still further in his statement of the case.

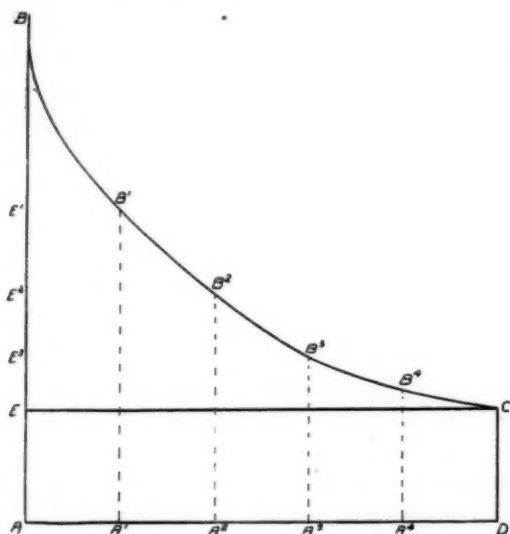
"The true method," writes Clark, "of obtaining a law of distribution is not, therefore, first to eliminate from the earnings of society the element of ground rent, and then to try to find principles that will account for the remaining elements: it is to eliminate what is not rent,—namely, pure profit,—by reducing society to a static condition, and then, by use of the rent law, to account for all that remains."² It is this attempt to reduce all shares

¹ By a like bit of reasoning it might be shown that wages, as the reward of the abstract fund of labor, are set by the marginal productivity of this fund.

² *Quarterly Journal of Economics*, 1891, p. 289.

in distribution except profits to a rent form that we must now examine with more than ordinary care.

Clark elsewhere writes, "The differential gain of labor as applied unaided to fertile land, offers the clearest illustration of the different incomes that can be measured by the Ricardian formula. It is the type of all the rents. Labor, as thus applied to land, is subject to a law of



diminishing returns. Put one man on a quarter section of land, containing prairie and forest, and he will get a rich return. Two laborers on the same ground will get less per man; three will get still less. . . . If, however, our farm is isolated and the workers are a society by themselves, and if there are ten of them to be employed, we shall set them all working and pay to each of them as much as the last one produces."¹

¹ Distribution of wealth, p. 192.

"Let us measure the number of laborers by the line AD , and the product of successive increments of labor by $AB, A'B'$, etc. If we give to these lines an appreciable width, so that a series of them will fill the entire figure, $ABCD$, that area will measure the product of all the labor and all the capital in our illustrative agricultural community. The capital is virtually all in the form of land; and we are now able to attribute to the land that part of the product which, in effect, it creates."¹

For reasons that seem good and sufficient to himself, Clark regards land as one form of capital goods and at the same time he here assumes that the auxiliary capital in the form of tools is so small in amount as to be a negligible quantity. Under these assumptions "The capital is virtually all in the form of land." $ABCD$ is the total product of labor and land, and what labor can claim is its marginal product CD multiplied by AD , the number of units of labor force. From this it follows that what the landowner can secure is the total product $ABCD$ minus $AECD$, equal to ECB . We will not here trouble ourselves with the equity of this distribution, but instead will follow Clark in the further development of his argument.

He continues,² "For a fixed area of land read, now, a fixed fund of permanent social capital. It is at this moment an exact sum; and it will, as it were, prolong the conditions of this moment, remaining at exactly its present size. The artificial instruments are, of course, perishing and renewing; but, if there is no need of changing the form of the capital, a worn-out instrument will be replaced by another that is exactly like it. A hoe will replace a hoe, and a ship will succeed a ship;

¹ Distribution of wealth, p. 194.

² Distribution of wealth, p. 197.

and the new instruments of production will be exact duplicates of the old. This would be clear in a completely static condition. We are, however, to introduce labor, increment by increment, into this general field of industry; and this, of course, compels such a change in the forms of the capital as we have already described. The amount of the capital remaining fixed, the instruments become more numerous and cheaper, as the force of labor enlarges."

"Labor, applied to the whole fund of capital, in land and all other instruments, is now subject to the law of diminishing returns. The first unit produces the amount AB , the second produces the amount $A'B'$, the third creates the quantity A^2B^2 , and the last the quantity DC . This last amount sets the rate of wages, and the area $AECD$ measures the amount of wages. It leaves the amount expressed by the area EBC as the rent of the fund of social capital. *All interest is thus a surplus, entirely akin to the rent of land, as that is expressed by the Ricardian formula:*¹ it is a concrete product, attributable to the agent that claims it is an income."² Clark then reverses the condition and assumes that labor is fixed in amount while capital is added in successive increments. In this way he endeavors to show that wages likewise are a differential gain or rent. He writes, "The Ricardian formula may be employed to describe the earnings of the whole force of social labor; for wages, in their entirety, are a differential gain. *It is one of the most striking of economic facts that the income of all labor, on the one hand, and that of all capital, on the other, should be thus entirely akin to*

¹ The Italics in this and other passages in this paper quoted from John B. Clark are not in the original.

² Distribution of wealth, p. 198.

ground rent. They are the two generic rents, if by that term we mean differential products; and the earnings of land constitute a fraction of one of them."¹

Now if it can be shown that interest is a surplus entirely akin to the rent of land, it will hardly be denied that the earnings of the other mobile homogeneous fund (labor) may be reduced to a like differential form or rent. I shall therefore confine myself to the question: Has it here been shown that interest or the earnings of the *permanent fund of social capital* can be reduced to the rent form? In a word, is it true, as assumed by Clark, that the differential surplus here represented by the triangle *ECB* corresponds to or in any way represents the earnings of the permanent fund of social capital? So far as I have been able to follow his reasoning, Clark has failed to show any connection between the two phenomena. On the contrary every attempt to show such a connection seems to involve an ignoring of that distinction between capital and capital goods upon which he has so strongly insisted.

Clark reproduces² therewith in a simplified form the diagram by which he has sought to show that interest and wages are differential surpluses. In Fig. 1 interest

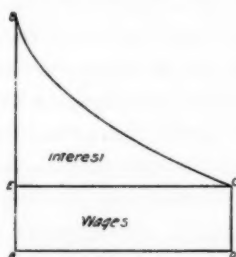


FIGURE 1

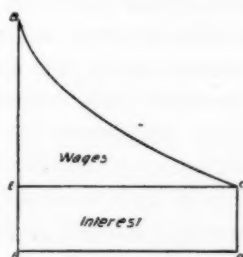


FIGURE 2

¹ Distribution of wealth, p. 191.

² Distribution of wealth, p. 201.

is shown as a surplus "that is of the nature of rent;" while in Fig. 2 wages are made the "surplus that is akin to rent." Now what we want especially to note is the fact that Clark regards these as the diagrams of a *static* form of society. He writes, "These amounts together [interest and wages] make up the whole *static income* of society." He also writes, "Profits have no place in such *static* conditions. The two incomes that are permanent and independent of dynamic changes are the products respectively of labor and capital." Again he concludes the summation of this entire chapter as follows: "The *static* conditions assumed in the present study preclude the existence of entrepreneurs' gains." It is clear, then, that Clark regards these as the diagrams of a static form of society, and that profits, being the result of dynamic changes, can find no place in these diagrams. The question that now confronts us is: Is this the correct interpretation of these diagrams?

Clark has elsewhere shown that with a given technical development there is always a certain ratio of capital to labor that will yield the greatest product. Disturb this ratio and you introduce dynamic conditions. The now scarcer product is put at a premium, and so can secure a larger share of the total product than it could under normal, or as Clark puts it, static conditions. This premium is the "pure profit" which leads to an increase of the scarcer element until the normal ratio is again restored. Hence when we add successive increments of labor to a fixed fund of capital the diagram representing this fact is no longer the diagram of a static society. Clark elsewhere¹ recognizes the fact that we have introduced dynamic conditions when we

¹ Distribution of wealth, p. 275.

enlarge one factor while the other remains constant. He writes, "It may seem that we have been outside of the strict limits of a static science, whenever we have traced the process of increasing the social capital." He dismisses the difficulty, however, by saying that "Throughout this volume we have allowed ourselves to observe changes that directly bring about static adjustments."

But is it open to us thus lightly to ignore the reintroduction of dynamic conditions into our diagram? Is it at all allowable for us to add successive increments of labor to a fixed fund of capital, and yet continue to say that our diagram includes nothing but wages and interest? In a word, does not the reintroduction of dynamic conditions compel us to find some place in our diagram for that "pure profit" whose "existence is precluded" only under the assumption of static conditions?

Is it true that in Fig. 1 the supply of capital is assumed to be fixed in amount? Clark has frequently associated this idea of a fixed fund of capital with the static concepts, as when he writes, "The static assumption itself precludes all increase of capital."¹ But why, it might be asked, should not the static assumption preclude all increase of labor as well as of capital? Again it might be urged that even the capital in Fig. 1 has ceased to be static the moment that labor has taken on dynamic conditions, for with any disturbance of the normal ratio both factors become dynamic.

In describing a static society Clark writes: "Tools and materials might never change; they might not alter, either for the better or for the worse, the amount of wealth that industry would yield. . . Social production

¹ *Distribution of wealth*, p. 340.

can thus be thought of as *static*.”¹ Again he writes:² “A worn-out instrument will be replaced by another that is exactly like it. . . . This would be clear in a completely *static* society.” In a word, it is here clearly recognized that constancy in the concrete forms of capital is an essential condition of a static society. Yet in this same connection Clark writes: “We are, however, to introduce labor, increment by increment, into this general field of industry; and this, of course, compels such a change in the form of capital as we have already described. The amount of capital remaining fixed, the instruments become more numerous and cheaper, as the force of labor enlarges.”

Now if constancy in the form of the capital goods is an essential condition of a static society, then the above assumption of a change in the form of the instruments to suit the increasing supply of labor is an abandonment of static conditions so far as capital is concerned. And so, whether from the standpoint of an increasing supply of labor or of changing forms of capital goods, our diagrams (Figs. 1 and 2) represent dynamic conditions, and this despite the fact that in Fig. 1 we have assumed a fixed fund of capital. “Heroically theoretic,” writes Clark, “is the study that creates in imagination a static society.” But it may be asked, can we thus justify a study that adds successive increments of labor to changing forms of capital, and yet continue to think of this as a static society?

If Figs. 1 and 2 are the diagrams of a dynamic society, it follows that they must somewhere contain that “pure profit” which Clark has declared to be the sign and token of such a society. We have seen that a disturbance

¹ Distribution of wealth, p. 28.

² Distribution of wealth, p. 197.

of the normal ratio gives to the scarcer factor a monopoly advantage. Hence in Fig. 1, where labor is added in successive increments, it is capital that enjoys this monopoly advantage or in some way secures that "pure profit" which is always to be found in a dynamic society. Now as Clark has elsewhere written, monopoly inheres in the concrete forms but not in the abstract or permanent social fund. Hence if *ECB* represents the entire earning of the capital employed, it must at least include the "pure profit" or the monopoly surplus secured by those who control particular concrete forms of capital goods.

We are further confirmed in this view when we note that in his attempt to show that interest and wages are differential surpluses, Clark has been compelled to assume that each addition to the supply of labor is accompanied by a change in the form of the machines, tools, or capital goods employed. If the number of laborers is very limited relatively to the supply of capital, then this capital will be embodied in concrete forms that effect a great saving of labor. As the supply of labor increases, these concrete forms are transmuted into others that are less efficient as labor-saving devices. Or, while the amount of capital remains the same, it is embodied in less and less efficient forms with each addition to the supply of labor. In other words, the differential gain represented by the triangle *ECB*, Fig. 1, would seem to be due to variations in the form or efficiency of the particular machines, tools, or capital goods employed, and not to any variation in the mobile homogeneous fund of capital embodied in these particular capital goods.

DISTRIBUTION BY A LAW OF RENT— DISCUSSION

ALVIN S. JOHNSON: It appears to me that a careful examination of the terms employed by Dr. Macfarlane and those used in the system which he declares to be antithetical to his own will disclose that the essential difference is not great. In this I may be led astray by my own desire to harmonize the substantial contributions of Dr. Macfarlane with the results of Professor Clark's analyses.

I can see no reason why a disciple of Professor Clark should deny that wages and interest are marginal and normal surpluses, as Dr. Macfarlane maintains, while still holding that from another point of view they are differential incomes. If all land were of like quality, but of limited quantity, and if we fixed our attention upon the relation of one piece of land to another, no differential income would appear. But if we apply labor and capital, dose by dose, the earlier doses will be more productive than the later, and the total return to land may be analyzed into differential surpluses connected with the earlier doses. Again land if alike after it is once brought under cultivation, has required different degrees of sacrifice in its appropriation, and is ultimately limited by the fact that at a certain point the return to land is a bare recompense for the sacrifices of appropriation. The rent of land is a normal surplus, in Dr. Macfarlane's terminology, as well as a marginal surplus; but it would still be a differential return from Professor Clark's point of view, and would be held to be such by all who accept as valid the intensive law of rent. Dr. Macfarlane would term rent any price-determined income; Professor Clark, any

income which is differential in the sense that return to land, analyzed by the intensive law of rent, is differential. No one would claim that interest and wages are rents in Dr. Macfarlane's sense of the term.

By profits Professor Clark means an income originating in an excess of productivity of one unit of industrial agency over and above the productivity of a like unit which is in a position of average advantage. It is a transient income, and is price-determined. In Dr. Macfarlane's view profit may be shared by all units alike. If the return to capital is such that the marginal capitalist receives a reward more than sufficient to cover the disutility of abstinence, in this sense all capitalists receive a profit. It is a price-determining income, and cannot be taken away by competition. This income Professor Clark would call an integral part of interest.

It is true that the diagrams employed by Professor Clark represent a dynamic and not a static state. But that such a representation may *explain* a static state may be shown by the analogy already employed. Assuming that all units of land are alike in quality and situation and that all units of labor and capital are alike in their efficiency, a truly static description of income would show marginal incomes only. No differentials would appear. But if we desired to show how it is that land came to yield a rent, our method of procedure would be to assume that land was at first abundant, while labor and capital were relatively unlimited. We may then trace the effects of increase of labor and capital. At first the product attributed to labor and capital may be very great while that attributed to land is zero; but with each increase in the former agents, a part of their productivity is apparently transferred to land.

As to profits it is legitimate to assume that Dr. Macfarlane intends the term to convey the same significance that it bears in Professor Clark's analysis, since he uses it as a quotation. In this sense of the term, profits do not appear if all units of capital and labor are equally productive after the change as before it; and if competition of entrepreneurs is unrestricted, it is conceivable that labor may increase without creating any misadjustment in the relations of different units of labor and capital, as Dr. Macfarlane admits. It is surely no less conceivable that the new labor might be so distributed as to create no misadjustment which would result in pure profits. In reality it takes an appreciable time for competition to apportion new labor. After each increase in the supply of labor, then, a profit will appear. This, however, is just as true in the case of an increase in labor and capital upon land. When the marginal dose makes it possible to reduce the earnings of all earlier doses, it is the entrepreneur who first gets the product of which the earlier increments of labor and capital are deprived. Competition, however, soon conveys this product to the landlord. The differential income which makes up the rent of land represents a series of products which were first received by the laborer and capitalist, then by the entrepreneur, and finally by the landlord. When conditions of perfect competition are restored, however, that differential income contains no element of profits. In exactly the same way the differential income representing interest in Professor Clark's diagrams contains no element of profit, although profits arise with each successive increment of labor. This, it seems to me, is the obvious way of accounting for the absence of profits in the diagrams under consideration.

Dr. Macfarlane has given us what he considers a more satisfactory way of accounting for this fact, alleging a confusion of capital and capital goods. If, as it appears, he wishes to account in this way for the existence of profits in Professor Clark's sense of the term, he must assume that after the change some capital goods will be more productive than others containing an equal amount of capital. At any rate the illustration by which he seeks to make clear the difference between capital and capital goods seems to imply that this is his position. Now it is obvious that the assumption of perfect competition precludes the possibility that some capital goods will be in a monopoly position, just as it precludes the possibility that some units of capital will be more productive than others.

SIMON N. PATTEN: The topic we have before us has been discussed in too complex a way. We have in reality two problems; one having to do with the facts of distribution, and the other with the principle or law of distribution which is said to be the law of rent. What do we mean when we say "distribution by a law of rent"? We must deal with the problem in a historical way, and must, therefore, take the terms as they have developed in our science. I differ from the preceding speaker when he said that if we know the terms of a particular writer we can determine whether he has been logical or not. That is not the question. The question is whether or not in a century's development there have been advancements made in economic theory, and if so in what particulars the rules of distribution are in advance of the rules of fifty or seventy-five years ago.

What was it that made the rule of distribution so important? In England seventy-five years ago there were

three social classes; the landlords, the capitalists, and the laborers, and it was a practical question, one of real importance, to determine the income of any one of these three classes. We have, therefore, to decide whether or not this class or that class was justified in its income. The real point at issue was whether or not the income of landlords had the same justification as the income of the other classes. That was of tremendous importance, politically and socially, because at that time the whole political power of the English nation lay in the hands of the landlords. The result of the agitation was the reform bill of 1832. We have since then added something of importance to our knowledge, but in how far will it have a practical value in any of our social problems? How can we determine whether any one income is justifiable or not? There is but one practical conclusion, and that is that either all incomes are by the law of rent not justifiable or every income is equally justifiable. In either case we do not have a theory of distribution, as some classes must by it be placed in a better position than other classes. It seems to me that we do not get from the increased use of mathematics any benefit for economic theory, any basis on which increased knowledge can throw new light on the present distribution of income in our country.

MR. SWIFT: It seems to me that Professor Patten has given an interesting explanation of the economic problem. We have a law of rent which defends the landlord class, and it is the duty of the economist to work out an economic theory which will upset this state of affairs. It appears to me, therefore, that political economy up to that point does what the two classes in power desire it to do. Consequently at the present day if a new

power can in any way be produced we shall have a new political economy. The power of the capitalist will not give us the change because the capitalists have large fortunes by manufacturing, etc. If any element whatever comes forward and pulls away the capitalist class as the socialists propose to do, the economist would be in duty bound to work out a theory of society which would justify this act. And moreover, because the competing power would be in the hands of a new class, they would do it as they have done it twice before.

CHARLES W. MACFARLANE : In reply I would say that this is not at all a question of terms or of the definition of terms. Define rent and profit as you please, the fact remains that throughout the discussion Professor Clark has characterized interest and wages as static incomes; and yet in the diagram of the earnings of a *dynamic* society he divides the entire return from production between these two *static* incomes. Any reasoning based upon this treatment of the diagram of a dynamic society must be in error, since such a diagram must somewhere contain those surpluses which are peculiar to a dynamic form of society—and this no matter how these latter surpluses may be named or defined. Nor can we escape the difficulty by admitting that this is the diagram of a dynamic society and by then holding that by an effort of the imagination we here employ it to illustrate static conditions. For by no legitimate exercise of the scientific imagination can we divide the total income of a dynamic society into interest and wages or into static incomes. It is this that must invalidate every attempt to show, by means of this diagram, that interest is a differential gain or rent.

Again, since the differential variation in the income depends, by confession, upon variations in the efficiency of the tools employed, there would seem to be good ground for concluding that the triangle marked "interest" really represents the dynamic income or the earnings of "capital goods" as distinguished from interest *per se* or the earnings of the permanent social fund of "capital."

THE UNION AND THE OPEN SHOP

HENRY WHITE

A well-known employer has said, "The existence of unions shows that we have not done our duty as employers." This candid remark has been repeated as though it explained the cause of the existence of labor unions. If this explanation be true, then the trade unions are only temporary expedients whose mission is fulfilled when the grievances that brought them into being are redressed. That seems plausible as a quick and off-hand solution of the perplexing labor problem.

If we investigate more closely, however, we find that the movement of the wage-workers has quite another aspect; that while ill treatment has something to do with its existence, it only partly accounts for it. It is seen that this phenomenon is world-wide, that it is social as well as economic, that it is peculiar to all countries where the modern productive system exists, that it is as pronounced in localities where the conditions are most favorable and where the workers are skilled and well paid. The student soon ascertains that the unions represent a working class struggle, a striving upward of that great useful element in society which, with the single exception of the guild period, has always been mute and defenseless. The labor union movement implies an orderly effort, not only to wrest concessions from the employer, but also to secure recognition from society. It is a movement which seeks to change the present standards by which the laborers' share in production is decided, and disputes the right of the employer alone to determine what fair treatment should be. This distinction is fundamental, and is the differ-

ence between democracy and autocracy. In reality it is industrial democracy that the unions aim at, and it is that which brings them into harmony with the world-wide tendency of the times. The individual members may not be conscious of this purpose, but such is the effect of their action. The mere coming together of the wage-workers to consult is a departure that leads to far-reaching consequences.

What the employer whom I have referred to had in mind was the old conception of just treatment by simply giving his employees what he in his own opinion could afford. A sweater can offer the same reason. An employer who does not contend that he is paying as much as his business will allow would be a curiosity. Furthermore, no matter how good an employer's intentions, he can not allay the discontent with economic conditions; and owing to the limitations of competition, it would even be beyond his power individually to concede to his workmen conditions substantially better than prevailing standards. So we see that the problem is not a matter of the liberality of the individual employers, but of general conditions that can be improved only by a uniform upward pressure which the wage-worker himself must apply. In doing this he must encounter the opposition of employers, who naturally object to being disturbed, and who resent interference with their time-honored prerogatives. It does not follow from this situation that the unions are arrayed against capital and that they are naturally hostile to employers as such; it is simply a condition that must be met. There is really no way of knowing what an employer can afford to pay or of deciding what an equitable division of the joint product should be except by means of this forcing process and the balance reached as a re-

sult of such contention. The friction is largely overcome where employers appreciate this function of the union and are prepared to treat with it, not as something to be afraid of, but as a necessary factor in industrial progress. It would not handicap the employer disposed to be just to have a minimum rate of wages upheld, for it would improve his position as a competitor.

Such a recognition of the working class struggle is involved in the union shop, for it expresses the willingness of the employer to treat with his men on terms of equality and to allow them representation. The great consideration is to permit workmen to have a voice in the shop—to have some control over the conditions of employment. The recognition of that democratic principle means more to the worker than reading rooms, baths, and pension funds, which, under the guise of benevolence, undermine the independence of the employee. A manufacturer noted for that kind of philanthropy told me that it makes unions unnecessary.

We now approach the most sensitive part of the question, the status of the non-unionists. In order to maintain their position in the shop, the union men are obliged either to exclude the non-unionist or to induce him to join with them. A partly organized shop, one that is called "free" or "open," is untenable, for either the non-union men will in time have to join the union or the union men will be obliged to withdraw. They are incongruous elements, and one or the other in time must give way. The unionists have cause to feel that they are at a disadvantage working side by side with the non-members, who receive the favor of the boss and prevent concerted action on their part. Besides, unless all employees are bound by an agreement, the employer could

eventually replace the union workmen by men who make individual bargains.

Consider the case of a shop in which the workmen, in order to present a just demand, unanimously organize and succeed in their contention. Then suppose they do not insist upon the exclusion of non-union men. In time the union men forsake the union or are superseded by non-union men. Disorganization follows, and the old conditions are restored. Under the stress of a common grievance they again organize and gain their object. Unless permanent organization is maintained by the majority's refusing to work with delinquent members or objecting to the introduction of non-union men, their previous experience would be repeated indefinitely without making headway. The presence even of a single workman acting independently serves to frustrate the purpose of all. This is the heart of the question. Let those whose sensibilities are offended by the harsh methods resorted to put themselves in the workman's place and tell us what they would do.

In applying ethical standards, existing conditions must be considered. If all workmen understood their interests and acted consistently, the disagreeable features of labor unions would be unnecessary. It is the same deficiencies common to humanity that make governments coercive, but this sort of coercion we accept habitually. It is not an ideal condition where the pay of the artisan is measured by his resisting or offensive strength; nor is it so where Jones is made to work for less than his services are worth because Smith, who is more in need of a job and willing to live on less, can be induced to accept a lower wage. The best situation is where both sides are so strong that neither can afford to ignore either the claims of the other or the influence of

public opinion. This is the condition favorable to arbitration.

When a union undertakes to exclude workmen from membership,—action which, in a state of thorough organization, is equivalent to debarring them from employment in their trades,—it wields a power which is public in character and which subjects it in the exercise of this power to the judgment of public opinion. The unions are therefore called upon to justify their actions in every case of exclusion or expulsion from the union.

Unions are showing an increasing consciousness of their responsibility in this respect by providing rules of procedure and courts of appeal. This is perfected where national unions have control over local unions. The national executive boards are directed by their constitutions to entertain appeals, thus eliminating the personal considerations which actuate local unions. It is incumbent upon unions to act generously toward offenders, so as to reduce as far as possible the number of workmen debarred from the union. In fact it is to their larger interest to do so, otherwise the disqualified men would so increase as to threaten the union's position.

The mooted question arises as to how far the unionist can properly go in influencing the non-unionist. The right to persuade no one will deny, although courts have essayed to interfere with it. The right to ostracize or to refuse to associate with craftsmen who are indifferent to their common welfare is questioned. If that be wrong, then it is equally wrong for professional men to shun others of their calling accused of "unprofessional conduct." It is also wrong for merchants to taboo other tradesmen who disregard the ethics of their business. It would in fact be wrong for any one to refuse inter-

course with another because of misconduct. Ostracism has always been a potent moral force, moral because peaceful and because depending upon the coöperation of others. It is perhaps the strongest influence in upholding social standards.

I do not wish to be understood as favoring the coercion of the non-unionist, because I recognize that labor unions must be founded upon the voluntary consent and good will of a majority if they are to endure; but some forcing is unavoidable in the movements of great numbers, especially in an aggressive movement that has immediate objects to attain and in which the interests of all are closely allied. It cannot be expected that the mass, that is, the organized part, will wait for the consent of every individual before it moves, the same as in the case of nations. Those who stand in the way of the rest have got to step aside or join the procession. Even those who may disagree with the policy of the majority can influence its course by acting with it. Where the majority, however, becomes oppressive and there is no hope of correcting its policy from within, it becomes the duty of even the dissenters to withdraw for the time being by way of protest, and should that be ineffective, to form another union in opposition to it, but always with the idea of eventually creating unity. The harmony that now pervades the labor movement is the result of the secessions and revolts against bad and corrupt management. Such means have always been the safeguard against tyranny and wrong tendencies, and the improvement in methods of government is chiefly due to the same means.

The methods by which the non-unionist is driven into the union seem arbitrary to those unacquainted with the circumstances, seem like a denial of his

personal liberty to force him to join against his will, seem a coercing of the employer into driving employees into the union against his interests. As a matter of fact, however, the non-unionist has nothing to say for himself; the employer alone is solicitous about his independence, and for motives easily divined. The scruples that the non-unionist is supposed to have against joining the union evidently exist only in the mind of the employer, for when the non-unionist finds his way into the union he becomes as zealous as the rest. He finds that instead of losing his liberty he actually gains it, and that he shares equally in the benefits of the improved conditions secured through the efforts of the others. Workingmen, knowing what actuates the non-unionist, disregard the delicate considerations which arouse the indignation of outsiders. They know that workmen remain aloof from the union, not from conviction, but for no other reason than indifference and short-sighted selfishness. Usually it is due to a doubt as to the willingness and ability of other workmen to act together; and consequently when the union succeeds in inducing the employer to compel them to join or leave the shop, they feel as though a union able to accomplish such a miracle is strong enough to benefit them.

Opinions concerning the rights of the non-union men that do not take into account his relations to other workmen and the conditions which surround them are bound to be erroneous, just as are discussions of the status of an individual without regard to his relation to society. A workman entering a modern shop is at once made subject to uniform rules and conditions. His pay is determined by what the others get; should he work for less it would serve to depress the wages of the rest. His lot is cast with his class, and his paramount duty,

therefore, is to support their solidarity. The workman who wants to work for less wages has lately received much attention. That remarkable being has not as yet been put in evidence. If there be such a person, he ought to be made the subject of a sanity expert, rather than the subject of discussion by political economists.

The resort to violence by workmen is not to be tolerated, and from an economic standpoint it is unwise. Physical force is inconsistent with the benevolent purpose of the labor movement; and if successfully employed, would be emulated by other workmen and would lead them to rely upon it rather than on the moral strength of their cause. A movement dignified by exalted aims and inspired by the brotherhood spirit, if it depended upon brute force as a means, would soon degenerate into a mob. The provocation to use force is intense under the trying circumstances of a strike, the same as it is among ordinary citizens when their indignation is aroused through some outrage; but to indulge in it would justify the antagonism of society, compelled, as it is, to protect itself against such aggressions. The supreme aim of organized society is to make personal vengeance unnecessary, to diminish the necessity for physical force, to make reason and justice govern human affairs. It is true that the labor movement, owing to its newness, is still to an extent held in distrust by society; its welfare, however, would be best served by winning public favor, and to gain that favor it must merit it. This view I am sure is supported by every labor official; it is incumbent upon them not only to disavow any sympathy with lawlessness, but also to convince the membership that they do not secretly approve of it even where it may appear to serve their ends.

I do not intend to make a lawyer's plea for the union, to emphasize its good points and hide its weaknesses. The labor movement possesses such elements of strength that its deficiencies can be candidly admitted in order that they may be more readily corrected. To seek to destroy unions because of their defects would be like attempting to abolish government because of its abuses. The unions with all their faults represent a forward stride of the human race. They cultivate a spirit of self-reliance and mutual assistance which ought to more than compensate for their faults. Their shortcomings are the shortcomings of the average individual of which they are composed. While some of their actions cannot be defended on economic grounds, it may be said that workmen only share in the general ignorance of economic principles, and that they are merely enabled through organization to give effect to the opposition to improved methods. The hardships caused by inventions fall more heavily upon them, and they naturally regard them from the standpoint of their temporary and immediate interests rather than from the point of view of society.

To prevent excesses of the union is a grave question. It is to the likelihood of abuse of the power so suddenly placed in the laborers' hands that the distrust of unions is due. Those who suddenly acquire power are unable to measure its limitations or to realize the responsibilities that go with it. This much, however, can be said to allay this apprehension: As the unions become stronger and gain in experience, they tend to conservatism, and their rashness is but the evidence of crudeness. The hard and stern conditions confronting them can be relied upon to keep them within bounds. The employers, when hard pressed, can seek refuge in com-

bination, and they have shown themselves to be as capable in that respect, at least, as the workmen. The problems which they raise are but the problems of democracy. Where people try to assert and govern themselves they become troublesome. The simplest condition is despotism, political or industrial; it consists merely in allowing someone else to decide what is best for yourself. Democracy is the stormy sea over which the bark of humanity must sail. Better progress under such difficulties than the dead calm of subjection.

FREE SHOPS FOR FREE MEN

WILLIAM H. PFANLER

The recent rapid increase of membership in labor unions has brought to the front the demand for a "union shop," which is being forced upon the employer whenever and wherever he is too weak to resist it. The manufacturer or employer of labor who resists this demand is said to have an "open shop"; and it is well to consider this feature of the struggle between employer and employee, with regard to the conditions created, but without sentiment or sympathy for either side. An "open shop" is a term quite common among employers, but it would have no significance were it not for this demand of the labor union to close the shop to all but union men and to prevent the employer from hiring *free men* who prefer to control the sale of their own labor according to its value, rather than at a price fixed by a body of men whose purpose is to create a standard of wages based upon the ability of the incompetent workman, or more frequently upon the emergency existing at the time such wages are fixed. The union claims that the efficient or skilled workman will always receive more than the standard wage; and while this may be true so long as there is one more workman in any craft than is required, when the condition changes so that there is a surplus of men, the incompetent is discharged, the wage of the skilled man is reduced to the standard which was fixed on a false basis, and often even lower than that, while the place of the incompetent workman is supplanted by machinery.

It is for this economic reason that a very large number of the best mechanics refuse to join the union, pre-

ferring to remain *free men* until forced by "persuasion," which is the only means allowed by the laws of the union, but which may be physical if moral will not answer the purpose. The last resort of the union in this direction is to demand a union shop, so that the employer, by refusing employment to a free man, or by discharging such a man if he continue to refuse to join the union, shall assist them in their persuasive purposes.

It is this action on the part of the union that compels the employer who prefers, in the purchase of labor, to make no distinction as to his employees other than such as follow natural laws to contend for an "open shop," often at great cost and severe loss to himself, and to maintain that condition, regardless of the union demand. That he is right in doing so cannot be questioned; it is the true American condition that every man shall be free to seek employment wherever and under whatsoever conditions he may prefer, without regard to his politics, his religion, or his affiliation with organizations based on principles which he cannot endure.

The opposition to the labor union to-day is not the objection to organized labor, but the objection to the methods employed by unions to force conditions and create ideals conceived frequently without due knowledge of existing facts, and especially objection to the secrecy in which all their plans are made and executed. The opposition of the employer to labor unions does not arise from any desire to prevent the accomplishment of their efforts towards the improvement of the condition of the workingman; the intelligent employer knows full well that the highest efficiency can be attained only by such improved conditions. He does object, however, to the attempt of the union to sustain in secret, by

approval and applause, unlawful acts on the part of its individual members, even though these acts are in public denounced and claimed to be contrary to the laws of the union.

I have yet to find a rule of any union which provides for the punishment or expulsion of a member because of any criminal act that he may commit, even though convicted before a jury, if such act has been exercised against an employer who has refused to grant the demands formulated by the union in secret conclave. On the other hand I do know of cases where the union, out of funds contributed by the membership, has paid fines of large amounts inflicted upon its members by courts before whom they have been convicted for crime committed against the employer or against some *free man* who refused to remain idle at their dictation.

Another mistake of labor unions is that they endeavor to think and work along one line only—that is, to define and demand the rights, as they conceive them, of the workingman, but never to attempt to define his duties; to define and demand the pay of the workingman, but never to define the equivalent in labor he shall furnish for such pay. This is the fact to such a great extent that the employer can very easily see in the action of the union the embodiment of the sentiment and the so-called principle which cause it to say, or at least to imply by its actions, that the employer has no right which the union is bound to respect.

I have outlined these conditions of the labor union as they exist and are presented to the employer that I may more clearly give you his reason for opposing the union shop and refusing to become a party to the attempt to create such conditions, while at the same time he may be in favor of organized labor and not only ready but

anxious to confer at all times with its representatives upon any subject which is within its jurisdiction and the consideration of which will result in mutual benefit to employer and employee.

✓ The difference between a union shop and an open shop can be clearly defined as a difference in management. In the union shop the union, without invitation, with no endorsement as to its qualification, for no ostensible reason except to exercise accidental power, attempts to limit the owner or employer in the exercise of his right and judgment as to the proper use of that which is his and to put the workingman under the dictation of a walking delegate or shop committee. The open shop, on the contrary, is free to all, to the union man as well as to the non-union man, and places no restrictions on the employee which he is bound to accept.

✓ In no case with which I am familiar has the demand for a union shop been accompanied by a proposition for benefit to the employer, except perhaps that he may, by conceding to the demand, hope to avoid the persecution of the local union to which his men belong. On the other hand the change from an open shop to a union shop gives the union entire control. And if the members in secret conclave decide, because of a hot-headed leader, to enforce a rule in the shop which is unwise, unfair, and detrimental to the interests of the employer, the ultimatum is a strike, the closing of the shop, and loss in time, money, and often property. Is there any wonder that the employer elects to have the strike which preserves his liberty, rather than that which must be made to restore his liberty?

The demand for the union shop presents to the employer the following dangers which are incorporated in the written or unwritten laws of almost every labor

union: (1) The surrender of the privilege of selecting his employees to a committee who recognize no standard of efficiency but membership in the union. "No card, no work" is the rule. (2) The necessity of discharging old and faithful employees who claim to be free men and who refuse to join the union. (3) The discharge of the foreman or the superintendent who, in the performance of his duties, may have offended the walking delegate or shop committee. (4) The limitation of apprentices to a ratio established by the union in many cases fifty years or more ago and retained in force regardless of any change in conditions or requirements. (5) The opposition to the introduction of labor-saving machines, designed in most cases to relieve the skilled man from the strain of labor and to increase his efficiency with reduced energies, as well as to increase production in ratio to the wants of an increased population and to reduce the cost to the consumer. (6) The limitation of the earning capacity of the industrious and ambitious workingman to the standard of the lazy and incompetent. (7) The obstruction to every plan of premiums or promotion which may encourage a workingman to increase his skill and better his condition. (8) The limitation of output by every means in the power of the union, on the principle that if every man will do less there will be more for every other man to do.

I am sure that the leaders in labor movements will promptly deny that the union stands for anything that I have enumerated; and I am willing to admit that some of them with whom I have had negotiations are opposed to every unlawful or unwise action of the union over which they preside, and have denounced such acts as freely as I do; but they can not, or will not, exercise the power to prevent them, because under the unwritten laws they are considered fair and right. A noted

economist has well said, "without impugning motives of leaders or factors who have brought them about, it is widely felt that the mere existence of vast consolidations, whether of men, money or power, has in it the possibility of mischievous, if not disastrous results, and the impulse to restrain them by law is undoubtedly growing and will ere long bear fruit."

One of the greatest mistakes of labor unions, as shown in the demand for a union shop, is the belief that the present rapid increase in numbers is an endorsement of the principles and acts of the union; but in this I am sure that the leaders are mistaken, because in times like the present the idea of consolidation or coöperation to secure any purpose is rampant, and men flock to any standard, whether right or wrong, if it suggests a change and promises future benefit in loud tones, just as millions of voters a few years ago followed the lead of a man who would have wrecked the entire financial condition of the country, followed him because he went thundering through the land telling the workingmen that free silver was the change they needed to improve their condition. The real hard fact as seen daily by the employer is that the numerical strength of most unions is in ratio to the force employed in recruiting, rather than to free will on the part of those who join. Thousands of good honest workmen join the union to purchase at a small cost freedom from insults—to protect their families from ostracism and themselves from bodily injury. In addition to this, many more thousands are driven into the union by the unwise actions of employers who deny the right of labor to organize for its own benefit and who refuse to confer with employees or their representatives upon such questions as may be of benefit or mutual interest. The very best recruiting agent for labor unions to-day is the proud, defiant, ego-

Bryan

tistic employer or accidental corporation manager who shouts continually, "I have nothing to arbitrate."

I make these statements from an employer's standpoint, based upon practical observation; and if I am wrong in any particular, it is because of the secrecy with which unions are conducted. Until that secrecy is removed they must be content to be measured by the things they do, and not by what they profess to do. I make these statements, not as the enemy of organized labor, but as its warmest supporter. I also advocate organization of employers, and gladly see such organizations springing into existence. The earliest associations of manufacturers were formed for "defense against the unjust demands of labor unions." To-day the object is to promote just and equitable dealings between employer and employees.

When these great organizations of employers on one side and employees on the other meet to contest their supposed rights or carefully formed demands, they will be compelled to recognize that greater organization, the American public, which is determined that contests of this nature shall be settled with deference to its rights, and that future attempts to stop the wheels of progress shall meet the fate they deserve.

I favor organization. Having been closely in touch with progress along these lines, I feel sure that the day is near at hand when labor leaders who stand for justice and equity between employer and employee will have the honest support of all employers. The result will be a union shop for which no demand need be made, a union shop which means union between capital and labor, which means harmony and profit for both; but more than that, a union which by its combined coöperation will conquer for this country the markets of the world.

PROBLEMS OF ORGANIZED LABOR—

DISCUSSION

SAMUEL B. DONNELLY: I shall endeavor to give you briefly the conclusions I have arrived at from my experience with the "open shop" as an officer of a local trades union and an officer of an international trades union for a number of years. The first is this, that the "open shop" as commonly understood and commonly pictured by the press and the employers of the country does not exist; that if such conditions could be established and if such relations existed, labor unions would be unnecessary and men would not organize. Ninety per cent of the establishments recently classed by their owners as "open shops" were classed by the officers of the unions in the particular towns as strict union shops or closed shops.

The principal argument that is advanced in favor of the "open shop" is that the union has no right to dictate to the employer as to whom he shall employ, that the union has no right to compel a non-union man to join the union against his will. Let us consider, first, whence the great body of non-union men in the country are recruited. Fifty per cent of them are non-union men because of accident or circumstance, men who have no particular antagonism to the union, but who as a result of apprenticeship in country towns in non-union offices have never come into contact with trade unions and have never realized their benefits and are uninterested in the union problem. Twenty-five per cent consist of professional strike breakers and the semi-criminal class of workmen. The great number of those who are classed as "strike breakers" by the labor organizations

are men employed one year as detectives and the next as book canvassers, men who are in various precarious employments and who come to the front every time a strike occurs for the immediate benefit and for the premiums that are paid for men to fill shops. The class which I would designate as "semi-criminal" is composed of those who have been expelled from trade unions for embezzlement, the larger number coming from unions which maintain great benefit systems and which every year suspend a certain number of men for endeavoring to defraud the benefit funds of the organization. The other twenty-five per cent consist of incompetents, men who have been unfortunate through sickness and have fallen into arrears and disappeared.

It is unnecessary to call to the attention of the first class the benefits of unionism in order to induce them to organize. The twenty-five per cent who are the professional strike breakers and those who cannot comply with the reasonable and honorable regulations of the organization are most objectionable, and the cause of all the friction and all the difficulty. The remainder is made up of relatives of the employers and of friends of the bosses and of the superintendents, all passive to unions. The man who is pictured as defending his rights as an American citizen and as being aggressive and positive in any way is very hard to find, because a man who is competent to defend non-unionism is too intelligent a man to be a non-unionist.

I cannot imagine with what unions the employers and the press of the country who picture the bad features of organization so strongly have come in contact. The older organizations, I emphatically state, do not restrict the output; they have not opposed the introduction of machinery; they do not specify the men who shall be

employed in shops; they do not in any respect assume to control or in any way to interfere with the rights of the employer except on the point of wages and hours of labor.

The statement is made and generally believed except by those who have closely investigated the situation that the ranks of the unionists are filled with incompetents, and that a minimum wage scale is fixed for these incompetents. Investigation, however, will prove to any one that the greater number of incompetents in any trade are in the ranks of the non-unionists.

The question of "union shop" involves simply the question of what is union control. If, as is generally represented, the unions specify—and the unions generally do specify the amount of work each member and each mechanic shall perform—if they specify who shall be employed, who shall be discharged, what profits shall be made, then unions are not properly conducted; but such conditions do not exist except perhaps in isolated cases and where men are employed in special trades or new industries.

It is true that the men have made exorbitant demands, and such demands are treasured up by the employers and used against the unions. Five years ago the electrotypers' organization in New York came out in a sympathetic strike with the printers. During that strike a magazine publisher succeeded with non-union labor in producing fifty plates. When the question of settlement was discussed, the electrotypers' organization demanded that those plates be destroyed and new plates made by union men. After a consultation with the other unions the demand was withdrawn, but to this day we hear that demand every time we go into conference. These men must be excepted. The trade union-

ist cannot comprehend how men of intelligence and of experience are continually misrepresenting the attitude and the demands of trade unions, representing the union shop as something that should not be tolerated, as a shop with a dynastic government in which the union absolutely dictates and a man has no control over his own property and is denied his personal liberty.

The attempt of a particular union to organize a non-union shop of course involves very serious problems. It involves the right of the union to send men into the shop to work as non-union men, to talk with the men on every occasion, and gradually to form the nucleus of an organization. The conduct of the unions in these cases has been severely criticised, but in no instance has it been shown that any criminal act has been performed. I assert positively, moreover, that in all instances where, in the settlement of disputes, non-union men have been admitted into the organization in great numbers it has been without their being told by the employer that they must join. My experience is that the instant it becomes known that an employer is thinking of unionizing his shop or his office, the officers of the unions are besieged with applications from all these men, and never do they stand out except in the case of the semi-criminal class. Why men should maintain that shops are open when they know they are either union or non-union is hard to understand. It may be for the reason as given in New York city some time ago, that the employers like to give excuses in order to "save their face."

I want to say conclusively that the union man does not intimidate, does not tyrannize, does not specify the number of men to be employed, does not limit the output, does not oppose the introduction of labor-saving machinery, but simply enforces and carries out the le-

gitimate objects of organization. When it is so generally admitted that a trade union is a good thing, I can not conceive how any man will engage in a crusade against trade unionism.

When the union man is in difficulty, he goes out on strike, invariably thus placing all he has in the world in the balance. If the strike is lost he knows perhaps it means the loss of home and savings, the breaking up of the family, and the seeking of employment in a strange and distant place. When the non-union man is affected, in ninety-nine cases out of a hundred when it becomes with him a question of joining the union or of surrendering his position, instead of sacrificing for his employer he seeks the officers of the union and makes known to the union his wish to join. That is the rule. Now can there be with him any great question or principle involved? Has he not been educated in the same school as has the union man? Is he not the same type of American citizen as is the union man? Will he jeopardize his personal interests as the union man will for the sake of his personal liberty or what he considers his rights? No. That should conclusively prove that this non-union man who fights for the open shop is a myth, a man of straw only, fighting on certain occasions for the purpose of influencing public sentiment, if possible, against the organization of labor.

ERNEST F. DU BRUL: There is a provision in the building trade agreements in Chicago which covers that point, and that is that the non-union man shall be paid the same rate of wages as the union man. The unions there agree to work with non-union men.

The employers to-day are not opposed to the union because it is a union; they oppose the results of mismanagement. As Mr. Marburg says, we must consider

the question of individual liberty. I will read you one union's rules as to individual liberty: "Members shall not seek employment from shop to shop if the business agent has no job. If a member desires to go to a certain shop where he thinks he can get employment, he must first notify the business agent, who will advise him what wages to demand. If the business agent requests a member not to seek employment in a shop that he desires, he must comply with the request" or be subject to fine. All unions do not have those rules, but such are the things we are fighting. Such rules make the business agent a veritable autocrat, and abolish personal liberty. These are things we must recognize. We can and will take care of the non-union man, because he must be cared for.

It is not the aggregations of capital into corporations or trusts but the organization of employers into employers' unions that will solve the labor question. Such organizations may result in joint agreements which will be unbroken only when the employers' associations are strong enough to punish every violation by the union. There is little organization of employers to-day, and I believe that this is why most troubles arise. I do not believe that any trade agreement will ever amount to anything under any other conditions. Such is our experience in the machinery trade. We had an agreement with the machinists' union which we claim they broke, but which they claim we broke. [A voice, "Probably both right."] The reason it was broken was because the machinists could not or would not deliver the goods; they could not or would not remove restrictions on production and management which their officers agreed should be removed only as a consideration for shortening the working day. If the time comes

when the employers and the employees are both organized, there will be no fight, but there will be an armed truce.

JOHN E. GEORGE: Collective bargaining requires for its successful operation an effective organization of employers on the one hand and of employees on the other. The question before us in the present discussion is, Are employees justified, however, in their endeavor to control by their unions the labor engaged in the various industries? Mr. White's thesis is that while the coercing of non-union men into becoming union men may seem arbitrary from the employer's point of view and from the non-union man's point of view may seem an abridgment of personal liberty, such a course can be justified on the ground that unanimity of action and a spirit of solidarity must be secured among the workmen if they are to advance their interests. Moreover, since the best interests of all are promoted through organization, it is held by union men that to permit union and non-union men to be engaged in the same shop works against the best interest and highest efficiency of the union. Such means must be used, therefore, as may be proper to bring about the conversion of non-union men. Such, I believe, is the view held not only by Mr. White but by trade unionists in general at the present time. Moreover the organization of employers and the consolidation of capital make it necessary that trade unionists employ the same methods for their own protection by supporting one another and arranging a collective bargain with their employers. In endorsing the general proposition that in our present industrial régime it is necessary for workmen to develop strong organizations in order to be able to make an equitable contract for the sale of their labor,

I do not want to be understood as endorsing means that are sometimes used to attain those ends. The line of demarkation between the proper means and those which should be condemned has, in general, been well made by the courts, and need not be described here.

It may possibly add to the clearness of the discussion and to a better understanding of the problem, however, to point out some of the difficulties attending the organization of labor which are sometimes overlooked. In the first place the property which the trade union seeks to control in effecting an organization of labor is quite different from that which the employer seeks to control in effecting a consolidation of industry. Any attempt to organize and consolidate labor in order to control its sale means an attempt to secure concerted action among all the possessors of labor, all of whom are free human agents with different ideals and varying standards of living. An attempt to consolidate the capitalistic means of production, on the other hand, seeks to control property which is entirely separate from the owners of it and which can be freely bought and sold in the open market. This distinction should be kept in mind as explaining, in a way, why there must apparently be greater interference with personal liberty in the trade union program.

The fact of different standards of living among men working in the same trade is an obstacle which opposes a complete organization of labor. The trade unionists are rightly regarded as the middle class. Above them are the experts, in no particular need of organization. Below them is a numerous class whose standard of living is lower, but who are constantly coming into competition with the skilled trade unionists as machinery makes

possible the employment of less skilled labor. This lower class of laborers is being continuously recruited from the ranks of immigrants. So long as the difference in standards of living is great, so long will the relations between union and non-union men be acute. These immigrants, content with a lower standard of life, underbid their predecessors in the field.

In prosperous times, when there is demand for all the labor that can be had, any gain made by the trade unions are shared by the non-unionists, who for the time being often become members of the union, because union men refuse to work with men who are not members and do not receive union wages, and rather than have a strike the employer is induced to pay the union scale of wages to all. When, however, a falling market appears, with a reduction in wages and a decrease in the number of laborers, this lower class accepts the reduction first, and secures the employment. I was informed recently by one of the largest shoe manufacturers in Chicago that at present, while the factory is running to its fullest capacity, practically all the employees are members of the union and are receiving full union wages, although in ordinary times not more than forty per cent of them are trade unionists. Rather than have a strike through the union employees' refusing to work with the non-union men, it is to the interest both of the latter class and of the employers that the non-union men should become members of the union. The manufacturer stated further that if changed industrial conditions should make it necessary to cut down expenditures, the aggressive trade unionists would be discharged, while sixty per cent of the employees would abandon union standards and accept such employment and rates of wages as would be offered.

Such are some of the problems of union and non-union labor. It would probably be a distinct gain for the members of a trade if when times of depression came they could hold together the larger organization effected during prosperous times, face the economic situation, and accept such reduction in rate of wages as might be actually necessary, and then be in a position to secure more quickly any advance in wages to which they might be entitled when improved conditions returned.

Trade unions are coming more and more to be recognized by employers as a permanent part of the industrial order. In many trades in Great Britain the employers prefer to make terms with the trade unions which shall apply to non-union workmen as well, rather than to make terms with each of the classes separately. It is coming to be recognized as good policy to deal with some form of organization, and more and more to make that organization responsible, so far as may be, for meeting the obligations that have been assumed by it for the workers in the trade it represents. Although there will always be more or less friction between trade unionists and non-unionists, a friction which will be increased in our country through the immigration of workmen of lower standards of living, the problem will tend to become less difficult as employers treat more and more with the labor organization as the agent for the labor it would control. With the increase in power which trade unions thus attain they must more and more be held responsible for their part in the joint agreements with the employers, and sooner or later they will probably be required to become incorporated bodies, so that they may be held legally responsible for their acts.

ISAAC HOURWICH : I do not believe that there is any one in this assembly who is in favor of the use of violence in the settlement of labor disputes ; but since a great deal has been said about acts of violence committed by men supposed to be affiliated with labor unions, I think that it will be in order for me to mention a case of violence committed by men supposed to be in sympathy with employers. I wish to bring before you the recent outrage committed in Tampa, where the mayor of the city was kidnaped, put on a vessel, and removed from the city. And why ? Because he favored organized labor. This case in Tampa is not an isolated case. In another case a small committee of vigilants composed of employers of labor kidnaped the leaders of a labor union, put them on a vessel, and finally landed them on an island where they nearly starved until they came across an Indian village. Such acts are prohibited by law. The kidnaping of the mayor was a plain act of revolution, yet I have not heard that anything was done to punish the criminals who performed that act.

The subject of the incorporation of labor unions is a broad one. However, I wish to deny the necessity of incorporating labor unions in order to make them legally liable or responsible. A labor union can be sued in court whether it is incorporated or not. Labor unions have been sued before. I have no time to prove this proposition, but any one who has studied the rudiments of law will know that under the rules of equity practice which have been embodied in the codes of civil procedure there is no necessity of a union's being incorporated before it can be sued. The question of incorporation, therefore, ought to be left entirely to the discretion and judgment of the labor unions.

HUGO BILGRAM: I wish to say but a few words in criticism of the papers read. The first paper contains the assertion that trade unions are based on democratic principles. As a matter of fact, trade unions endeavor to dictate the contract between their members and a party who does not desire to be a member of the union, the employer. Even if he wanted to be a member, he would not be allowed to join. He has, therefore, no vote in the dictations of trade unions. This policy is not democratic but despotic.

The statement has been made that those workmen who do not desire to join unions are men who either do not realize the benefits conferred by unions or are criminals or incompetent men. According to my experience, in my trade the greater portion of the best workmen object to joining trade unions. I merely say this as a rejoinder to statements that have been made on the other side.

STUART WOOD: I wish to correct the erroneous statement of Dr. Hourwich that the mayor of the city of Tampa had been kidnaped and removed. The fact is, it was the mayor of a small, poor village in the vicinity of Tampa who was deported.

JOHN A. HOBSON: I want to make one point with reference to the alleged dictation of labor in trying to compel an employer to employ only union labor. An individual who wants to sell his labor power has, I presume, the right to sell that labor power upon any conditions which he may lay down. The purchaser of that labor power is likewise free to accept or to refuse to purchase that individual's labor power on these conditions. Is that freedom not to be extended to the sale of a lump

of labor, or collective labor power, which through one of its representatives offers to sell itself to an employer? If I am an individual I have the right to say that I will sell my labor power on condition that I am not to work with obnoxious persons. That is precisely the position of the persons who have combined to sell their labor power in a lump instead of selling it individually. A collective bargain is surely no dictation if it places certain restrictions on its sale. The employer is perfectly free to refuse to buy that collective labor upon these conditions. If he is strong enough he is perfectly at liberty to say, "No; I don't care to buy that lump of labor power on the condition that I am not to employ in these works any non-unionists." If he takes that point of view he will have to employ non-unionists exclusively in his business, and if he is strong enough he may prefer that course. Where does the dictation come in?

DELMER E. HAWKINS: Intelligent men welcome and encourage, rather than oppose, collective bargaining or any other kind of bargaining which places wage labor in a more favorable position for the betterment of its conditions. I maintain, however, that the question of the open shop or the union shop involves a far deeper question than mere "method of bargaining." It involves the question of personal and civil liberty.

There cannot be, it is said, any middle ground between a shop that is wholly union and one that is wholly non-union. All intelligent men who understand the great benefits derived from the union, it is said, are anxious to enter the union; if men outside are so stupid as not to appreciate the benefits of unionism, then they had better be made to join. Organized labor and organized

capital are here to stay. Both are capable of accomplishing vast good, and it is the business of the economist to show that the freedom of labor and the freedom of capital and business ability are the fundamental economic questions involved. The liberty of labor cannot be sacrificed, no matter what the object, purpose, or policy of labor unions; there can be no permanent advance of labor except on the basis of liberty.

I know from personal investigation that actual unionism in Syracuse, one of the most completely unionized cities in the United States, does not correspond with theoretical unionism as set forth in Mr. White's paper and in other addresses. Labor is very often coerced into the union. Employers are terrorized and are forced to become coconspirators with the unions in driving men into the unions or out of employment. I could give hundreds of examples of this tyranny of the union. Many have said to me, "I hate the union, I hate its despotism; but it was union or starvation." Business men in almost every city of this country know thoroughly well how unionism has overstepped its proper limits and invaded the rights of the employer and of the employee.

FRANK O'CONNOR: I want to add a few words to the discussion which has taken place. I want to say that the union shop makes a better article, produces better and cleaner conditions, and preserves the public health. The public servants whom we call factory inspectors do not visit the open shops—mark this, for it is important—do not visit the open shops with such regularity and make such clean breasted reports as they do in the union shops, where there is a moral force back of the report that goes to the public. If you will visit the cigar factory conducted by the cigar trust at

Eleventh and Washington avenues, where that fearful panic took place not long ago in which many children were killed and injured, and will then go to one of the trade union factories that make cigars in Philadelphia, and note the conditions, the moral tone, the standard of living of the two sets of employees in these factories, I will leave you to judge whether coercion or any of the other charges that have been made are going to interfere with the great trade union movement. I want to insist as strongly as I can that if there is to be an agreement between the men who work in a place and the man who is conducting the place, taking into consideration that third great factor, the public, which is to receive the goods made in that place, then there cannot remain a force that does not stand responsible to somebody. If the men choose to combine, choose to ask their employer for certain terms, they are bound by the agreement they make with their employer. But this third force, this non-union force, are responsible to no one; they need sign no agreement; they are not morally bound to keep an agreement that is signed. They are leeches hanging to those who are making sacrifices.

The American stands for a high ideal. He makes many mistakes, but he has reached the top of the ladder because he is broad enough and brave enough to assume responsibility for these mistakes. He says, "I am aiming at something, and if you give me a chance to govern myself I will try to do what is best." The trade union to-day is aiming for precisely the same ideal in the shop that you stand for in social and political life. It is trying to better conditions. The non-union man is an American citizen without an ideal. I have found one or two good mechanics in my own trade who have refused to join the union, but the majority of the non-

union men I have met have been negative men, without enough backbone to assert themselves. One charge against the union is "no card, no work." How do you judge a citizen? If a man comes to our country and does not take enough interest in our affairs to be naturalized, do we allow him to vote? His naturalization papers, however, assert that he is an American citizen, and give him the right to vote. The only way we have of knowing a man in his trade is by his paid-up card. We know that he is one of us, that he is aiming to do the same as we are aiming to do. As you say to the foreigner, "no naturalization papers, no vote," we say to this man, "no card, no work." We cannot help ourselves.

E. DANA DURAND: The abuses of trade unions emphasized by several of the speakers are to some extent due to attempts to counteract abusive practices of employers. For example, the limitation of output has its inception, in many if not in most instances, in unjust policies of employers. Under piece-work, as many employers have admitted, if the strongest and ablest workmen do all they can to earn a high wage, the rate per piece is too commonly cut down till the most competent can make only a living wage and others can not do even that. And under time payment many employers gauge the proper output of all by the speed of the few uncommonly strong and skillful, and "rush" their men accordingly. So with regard to the limitation of apprentices, refusal to work with non-union men, and other policies sometimes pursued by unions; they are often, though of course not always, due to practices of employers which are unfair to work people and to unionists.

We may grant that unions often do unwise and un-

just things, but that is no warrant for the conclusion so often urged that unions should therefore be smashed. Judge unions by their fruits, but by all, not part, of those fruits, and by their future possibilities for good as well as their present mistakes. The scientific and the humane thing to do is first to decide whether the principle of combination among work people is a proper one, whether their own condition and that of the entire community can be benefitted in this way. And if this question is answered in the affirmative, the particular acts and policies of unions may then be discussed as separate issues. Those practices which are proved injurious to society and even to the unions themselves can be vigorously condemned, and we may reasonably hope that the unions will ultimately abandon them. Do not cut off a patient's head to stop his disease.

As to the rights of non-unionists we should take the standpoint of the welfare of all working people and of all the community. Modern thinkers usually lay little stress on the inherent natural rights of the individual. Society makes right that which will accomplish the most good for its members as a body. No man has a right to a particular job if, by taking that job, he is going to injure a much larger number of men. It is easy to speak of giving equal rights to unionist and to non-unionist, easy to speak of the open shop in which the employer does not care whether his men are union men or not. But the union can not accomplish its most important objects unless the employer deals with it as a union. The employer can not be made to enter into a collective bargain—and without the collective bargain the conditions of labor are hardly fixed by bargaining at all—unless the union comprises practically all the men he wishes to employ. The labor organization

finds the accomplishment of its fundamental object dependent on comprehensiveness, and refusal to work with non-unionists naturally seems to it often a necessary means of extending its membership and making itself really effective.

WILLIAM Z. RIPLEY: Without going into the larger question I should like at this particular juncture to call attention to what seems to be the kernel of the question proposed for discussion. I have been a good deal surprised at the positive statements made by the labor men in this discussion that a shop must necessarily be *all* union or all non-union. Now is that true or untrue? My own notion is that it is not absolutely necessary, either theoretically or practically. From the practical point of view I would adduce evidence from the great industry of New England, the cotton mills. I believe that the condition of these people is better than it was before unionism began, and I believe personally that it will be a great thing for labor when there are more unionists than there are now; but from what I know of the unions in these cotton mills, I do not see that it is absolutely essential that every one of the operatives should be in the union, or conversely. I wish we might learn more fully as to whether there are not large shops all over the country which in times of prosperity have 100 per cent of employees in the unions, but which in times of depression have the proportion considerably reduced. If that is true in Chicago, as has been stated, why may it not be true elsewhere, as I know it to be in the cotton mills of Massachusetts?

To pass from the practical to the theoretical aspect of the question, why not draw something from the analogy between trade unionism and the distribution of power

between political parties? Let us suppose, for a moment, the Democratic party standing for free silver to be represented by the employers; let us suppose, further, the workmen to be represented by the Republican party; and let us suppose the non-unionists to be represented in analogy by a political class which is peculiar in New England, the independent voter or mugwump. Does the existence of this last class do anything other than to hold both great political parties up chockablock in the direction of right behavior? Is it not possible that a factory may have four-fifths unionists with one-fifth of its labor outside the union,—that proportion varying from good times to bad,—and that the unions may be more wholesome in their effects by reason of the existence of a certain proportion of independents?

HENRY WHITE: Mr. DuBrul has thrown out this challenge by quoting the maxim, "by their fruits shall they be judged." That challenge we accept, and we are willing to be judged by that standard. What are the fruits of trade unionism? The emancipation of the working people from the domination of the employer, giving them at least some say in the management of the shop, and placing the fair employer in a better position as a competitor with the unfair one. Another achievement is the gradual and steady increase of wages and the shortening of the work day. Those are some of the fruits.

It is also said that the unions put a premium upon incompetency. I am a clothing cutter by trade, and the trade is pretty well organized. We enforce a minimum rate of wages of twenty dollars per week for eight and a half hours' work. The effect of that minimum wage is to eliminate the incompetent, because no em-

ployer will employ a man unless he is worth that money, as he is given a free choice in selecting his workmen. The effect is to make the incompetent find employment in some other occupation more suitable to their abilities.

The man who is forced into the union against his will, the man who is so averse to the union because of its tyrannical methods, that same man willingly accepts the improved conditions that the same union secures for him. If that is tyranny, if that is oppression, then we are guilty of it.

It has been correctly said by one of the speakers that the abuses of the unions are due to the struggle to correct other abuses. If there is any distinction to be made between abuses on moral grounds, I stand for the abuses that are resorted to in order to correct others, because the first made the second necessary. We cannot conceive of any method of benefitting the whole without hurting some. Even such a beneficent measure as the child labor law robs the widow of the support of her children, by forcing them into school; yet the general effect of that law is so to equip the children that they can take better care of themselves all through life.

SAMUEL B. DONNELLY: In order to get at the facts when you investigate, do not take the word of the employer given offhand, and do not take the word of an officer of the union given to you offhand. If you want to find out the exact conditions under which men come into unions, ask the officers to permit you to be present at a meeting of their membership committee, where you can see these men and ask them how they came to want to join the union, because neither employers nor employees are as frank as they might be.

If employers were frank, they would have told you long ago that the reason they want trade unions incorporated is to tie up in a bank by injunction the funds which the union takes out of the treasury to get the non-union men brought in by the employers in time of strike out of town. At the present time there is ample recourse. In the Child's case in Buffalo the property of the individual members of the typographical union was levied on.

As to restrictions we may say that these will occur as long as men have any sympathy in their hearts or any consideration toward their fellow men. They will always hold back when a dull season is in front of them in order that they may not be laid off.

TRADE UNION IDEALS

GEORGE E. McNEIL

Trade unions are the democracies of the poor. They are the kindergarten, primary school, grammar school, high school, and college of the wage laborers; and the development of trade unions is as the development of humanity from its lowest conditions to its highest attainments. The trade unions at first have the dreams and the follies of childhood and of youth; they have the strenuous aggressiveness and lack of moral discipline of dawning manhood; they have the wisdom of time and experience.

Trade unions differ from each other as the states of the United States differ, and as different states of Europe differ one from the other. A fair criticism of one form of trade union would be an unfair criticism of another form of trade union; that is, to be fair in one's criticism of a trade union, the industrial, social, and political environment must be considered. In so brief a paper as this must necessarily be, very little, if any, classification can be made available. One example of difference in method may suffice as an illustration of these wide differences.

An international union, one of the best in point of development, has a financial system under which all the funds held by the local unions are the funds of the international body, subject to call. The books of the local unions are audited by international auditors. In the matter of strikes, no local union is permitted to strike until the consent of a majority of the unions is given. This union has accumulated large funds and has paid large benefits, amounting to millions of dollars,

for loss of time due to sickness, accident, or non-employment and for death benefits. The amount expended for strikes is very much smaller than the amount expended for other purposes. This union succeeded in securing a reduction of the hours of labor to eight per day without the loss of a day's time. In another national union the local unions own and control their own funds, and pay a per capita tax into the treasury of the national union. Their funds are not as large as the funds of the union before referred to, although their membership is probably as large, if not larger. One of the local unions may engage in a strike without the consent of the other unions, but in the event of such a strike the union conducting the strike must be dependent upon its own resources, and has no right to call upon the funds of the national union. The amount paid for strikes in this national union is probably in excess of the amounts paid in other benefits. As both of these unions are connected with the American Federation of Labor, they necessarily have many things in common. One union tends probably more toward what is termed socialism, and the other perhaps tends more toward what is called individualism.

Ancient organizations of labor differed from the trade unions of our day in very many respects, but the ancient organizations of laborers and the most modern of trade unions agree upon one general ideal, and that the betterment of the condition of the members of the organization. It is, I think, safe to say that the ideals of the earliest unions were in the direction not only of relief from the burdens of their lives and of certain religious privileges, but doubtless also of a better form of government. I think that the spirit of democracy was present in the minds of the leaders and probably of

many of the followers of the earliest labor associations. There is no question but that these early associations were semi-religious, while it is true of the modern unions that the question or questions of religion do not enter. Where the governmental law (if I may be permitted to use the expression as covering constitutional and statute law) was evidently oppressive upon the laborers, a code of moral law or a sense of moral law permeated the earlier unions, as it permeates the unions of to-day.

We are told that when the Carpenter of Galilee entered upon His mission, the common people heard Him gladly; and we are also informed, and can readily believe, that the religious, political, cultured authorities of that time as well as the wealthy members of the community not only rejected but finally crucified Him. The reception of the Carpenter's teachings by the common people was due to the fact that He gave expression to some of their ideals, and awakened hope in the minds of His hearers. The highest ideals ever uttered to human minds were spoken to the poor; to them the ostracized, boycotted Carpenter of Galilee gave the universal prayer of all who love their fellows, a prayer for an ideal state, of a heaven on earth, of love and happiness; to them he gave the Golden Rule of life, through the observance of which His kingdom would come to every human soul.

The poor black slave, even under the terror of the lash or more terrible evil of banishment, dreamed of an ideal state of civilization, of liberty, and of peace. The Irish tenant, evicted from his poor thatched cabin and barren fields, holds in his mind the picture of a time when his country shall be free. Even the man of whom Markham sung, "The oppressed of centuries of wrong,"

lifted his eyes as some gleam of the hope that lifts the man above the beast penetrated his torpid brain into the innermost soul of his diviner self. From the lips of Him whose soul was full of tenderness, pity, and compassion came the words of blessing to the poor and of warning and reproof to the rich. Through all the ages past the poor have struggled upward to their ideals, lifting not alone their class but by their mighty sacrifice and devotion lifting all. The civilization we enjoy they first dreamed and then created. Of them and for them are the songs of the true poets; of them and for them the deepest philosophies.

The ideals of the trade unions of the past are the accomplished facts of the present, although the earliest ideals were treated as dreams, and were met with the sneer of the so-called cultured class. The thought of and hope for the establishment of a government in which the laborers should have a part, though sneered at and opposed, has become a reality, though not to the extent it will yet reach. The hope for a larger religious liberty has been realized, as has also the hope for the final abolition of feudalism and chattel labor. In our day the demands for longer terms of schooling for the children of the poor, with less weary hours of toil, and for limiting the age at which children can be employed have each and all been subject to all forms of contempt and abuse, yet these benefits have been accomplished in some of the states of our union by the influence and power of the trade unions.

The commonwealth of Massachusetts was threatened with a withdrawal of all capital and of all capitalists if the hours of labor were reduced to ten per day. "The dead line of danger," as it was stigmatized by the political economists and manufacturers, has been reached by

the enactment of the laws providing for the safety of life and limb in the factories and workshops and for the maintenance of the proper sanitary conditions. This same class, some of cultured persons, protested against free text-books for the schools, and sneeringly said, "We shall soon have to provide lunch and perhaps clothing for the school children." Free text-books are in the schools, and the noonday lunch at small cost is provided in some of the schoolhouses of our cities.

Trade union ideals grow, for the trade union is life, collective life, coöperative life. This life is manifest in the labor movement that now attracts the attention of all classes of citizens, the movement that furnishes leaders of unquestioned integrity and ability. It is the finger of true civilization touching the button of the dynamic forces of our diviner nature.

The ideals of trade unions differ. The ideals of the so-called unskilled worker differ in degree from the ideals of the so-called skilled worker. The ideals of the new recruit differ from the ideals of the veteran unionist. Some trade unions are but business corporations, devoting their time and money to the protection of the craftsmen enrolled in their union, perhaps devoting some time to the protection of affiliating unions, that is, of workmen who may possibly be able to take the place of their more advanced craftsmen in the event of an industrial battle. Some unions remain practically outside of the active labor movement; the higher ideals of trade unionism have not entered into the minds of their leaders; they do not discuss questions of mighty import save as they affect their own craftsmen's interest. The great body of the trade unions, however, are not merely business corporations for the protection and the advancement of the interests of their members only;

they are affiliated one with the other in all matters pertaining to the best interests of all wage-workers, in the union and out of the union.

In the earlier days of trade unionism, handicapped as it was by legislative enactments and arbitrary and unjust treatment, exacted in the name of law yet really in defiance of law and justice, there was but an ideal of improved conditions. The child of the mill, of whom Mrs. Browning sang in her "Cry of the children," had hardly a dream of anything outside of the weary monotony of its labor; but when the hours of labor were reduced and childhood in a slight measure relieved of the crushing pressure of drudgery, the needed rest led to the ideal of leisure, of opportunity; and as the movement of the unions gained strength in finance and in membership, the ideal of larger wealth, with its opportunities of greater comfort in the home, took possession, and so during the century past higher ideals dawned in the minds of the leaders and of the led. The most beastly habits and customs of the barbarism of long hours and low pay gave way to more civilized habits and customs when the shorter workday arrived. The great coöperative establishments of England really owe their rise and owe their present magnitude to the ideals of trade unions and of labor men.

One of the ideals of the trade unions is that of securing freedom of contract—a freedom that cannot be obtained by the individual wage-worker unless such worker has a monopoly of a certain kind of skill absolutely necessary to his employer. It may be said that all the battles of the unions for recognition are battles for the obtaining of the power of freedom of contract. Strange as it may seem, the demands for nearly every measure of relief and remedy made by the trade unions have been

met with a claim that such relief or remedy, by legislation or otherwise, would destroy the great right of freedom of contract. The minds of many men have been confused upon this question of freedom of contract. Many men believe that the freedom of contract between employer and employee exists, but trade unionists know that it does not exist except where the trade union is strong enough to maintain it.

It is well understood that a contract supposes two parties, and that whatever tends to put one of these parties under the power of the other destroys the freedom of the contract. As I have said in another place and at another time, under the wage system no congregated form of labor is conducted on the theory of freedom of contract. At a hearing before a legislative body the treasurer of a large manufactory was asked if he ever consulted with his help with reference to the matter of wages. His answer was, "Do you suppose I run my establishment on the town-meeting plan?" In other words he confessed, as all employers confess, that he did not propose to allow any freedom of contract between himself and his employees. Employers do not confess this in words, but they confess it by their acts. The employer claims the right to name the conditions, the wages, and the hours of labor under which the laborer shall work.

The man who is forced to sell his day's labor to-day or starve to-morrow is unable to exercise any freedom of contract. The system under which the employer can wait to buy labor until starvation compels the laborer to sell at the price fixed by the employer is tyrannical. The delivery of one's property to a highwayman at the point of a pistol does not imply freedom of contract. It must be remembered that the present industrial system

rests upon the power of the class of employers or capitalists to compel the laborer to work at such price and under such conditions as the employer or capitalist may dictate. There can be no freedom of contract under such conditions, and where there is no freedom of contract there is slavery. As the employer or capitalist is not dependent upon any one individual wage laborer, excepting perhaps in some very rare instance, the laborer has but one recourse if he wishes to obtain something of his liberty, and that recourse is his association with other laborers in such numbers as to be able to compel the employer or the capitalist to stop production.

The opportunity for the nearest approach to freedom of contract is when a powerful labor organization has attained a membership covering practically all the craftsmen; that is, when an employer cannot employ help or such help or such quantity of help as he requires unless such help are members of a union. In such a case the employer himself or his representative and the representative of the employees meet on measurably equal terms—provided always that the trade union organization is strong enough to enable the members to remain from work for such a length of time as will so diminish the capital invested in the enterprise as to compel a conference or to cause bankruptcy.

The charge that there is great danger to public welfare from the trade unions' becoming monopolies is of the same character as the charge that there is great danger to private property in the establishment of a democratic form of government. It is true that people possessing the right of the elective franchise may exercise that right by taking possession of private property; but no true American feels that his liberty of life, limb, and the pursuit of happiness or of his other property

is really endangered under a republican form of government, because in the event of the democracy's taking possession of private property it could not be for private benefit and must, therefore, be for the public benefit, and under such conditions fair compensation would be given for the property taken. In the past certain kinds of property have been taken possession of in our states, almost noiselessly and certainly harmlessly, so that to-day the percentage of public property has been largely increased.

The trade unions claim that the wage-laborers through their unions shall fix the price and the conditions under which the laborers will sell their time, endurance, and skill; and it is simply ridiculous on the part of any one to claim that the wage-workers ought not to have this right, and having this right it is safe to say that they ought to be able to exercise it. The laborer is the merchant of his own time, and his labor is practically the only commodity in the market upon which the price is fixed by the buyer instead of by the seller. There is absolutely no tyranny in the trade union theory that the sellers of labor have the same right to sell their commodity that sellers of other commodities have.

"The fathers declared that all men are born free and equal; born possessed of certain inalienable rights, among which are the right to life, liberty and the pursuit of happiness." The right to life, liberty, and the pursuit of happiness, under governmental law, is forfeited by the performance of certain acts contrary to public safety and the common weal. The right to life may not be forfeited in certain other instances by law, but the life and the liberty and the happiness of great multitudes of men are forfeited by no act of their own; and this loss of human and property rights in life,

liberty, and the pursuit of happiness may not be due to pestilence, war, or famine, but it may be due to the political, religious, industrial, or social systems extant. In some times and in some countries a man may lose his life or his liberty by the expression of an opinion that may be a common expression of a general opinion in other countries or other times. In such an instance the act of the government in taking a life or in depriving a man of liberty would be termed tyrannical. A man may lose his life and is sure to lose his happiness and a measure of his liberty because of his inability to obtain employment at such remuneration and under such conditions as will tend to his continued happiness. If the lack of such employment is due to an industrial or social system, then such system can be properly termed tyrannical.

The advanced trade unionist believes that the humblest wage-worker has property rights as well as human rights, and that it is impossible to separate the laborer's human rights from his property rights. The so-called political economist has been blind and still is blind to the laborer's side of the question, that is, to the laborer's property rights; and the confusion in the minds of the so-called educators is largely due to the false and foolish theories that make up what is called the science of political economy, many of the propositions and assumptions of which are shown to be false. When we begin to recognize and acknowledge the laborer's property rights we shall have taken a considerable step out of the existing chaos into an orderly and scientific arrangement of data. The trade unions are in advance, in fact are the teachers of the schools; and great as is the cost of the battle between employers and laborers, it is an economic expenditure compared to the waste

that has resulted and will result if we continue to follow the blind leaders of the blind. The property rights of the laborer must secure ampler protection than is now afforded if we wish to maintain our present civilization.

The great governing law of wages rests upon the habits of thought and feeling, upon the customs and manners of the masses. Where the level of thought is purely physical or animal, groveling with the swine it feeds, occupied in discussing the fighting merits of game-cocks or men, and where the custom exists of working all the hours possibly occupying the hours of holidays and other periods of rest in filth and drunkenness, in that locality or condition wages will be paid to the level that will enable the laborers to enjoy themselves in their existing low condition. To disturb this class of men from their sottish contentment by an agitation for more wages or less hours is to lift them up in the level of their manhood to thoughts of better things and to an organized demand for the same.

The instinct of the people is sometimes wiser than the philosophy of the schools. The wage-workers, unionists and non-unionists, have an instinct that they are deprived of certain property rights by force of law and that this deprivation of the exercise of this right is in violation of moral law. Even where trade unions have not existed and industrial battles have occurred it is held to be an immoral act for a man to take the place of any one on strike. By some one it has been termed the thirteenth commandment, "Thou shalt not take another man's job." The great body of non-unionists as a rule live up to this moral law. Out of this instinct or belief is fast growing the additional belief that the wage-worker has an equity right, a property right in

his product outside and above that for which he has received wages.

It is an ideal of some trade unions that the capitalist and the employee should be joint partners in production, and that the participation in the results of the joint partnership should be equitable to both parties. The trade unions recognize that under the present industrial system the person who furnishes the tools, that is, the plant or whatever is necessary for production, should receive some compensation for such use, and that when all necessary reserve funds have been created to take care of the depreciation and contingencies, and the employer or employing capitalist shall have been paid a fair sum for whatever services he renders in the joint product, then the employee should be an equitable sharer in the balance.

I am not acting the part of the prophet when I declare that the joint partnership of the capitalist and the laborer is as inevitable as was the establishment of the corporations and combined corporations into the trust. All competition that is wasteful must be removed. The wastefulness of industrial battles has been made manifest; and that this wastefulness cannot be overcome by any scheme to prevent strikes, either by compulsory arbitration or by the incorporation of trades unions, should be self-evident to thinking men. Industrial peace will not come, and ought not to come, until equity exists between the employer and the employed. Out of the joint partnership will come systems of coöperation in which the laborer shall be a property participant not only in the matter of his time, skill, and endurance, but also in the capital he has been able to acquire under the joint partnership system. The time will come, and perhaps in the not far distant future, when some great

trade union, with large funds and a well disciplined membership and with practical control of all craftsmen, will enter into the production and the distribution of its own products. This is not a dream; it is a trade union ideal; it is the logical and inevitable evolutionary process through which civilization is passing and will pass.

The question may be asked, If such be the ideals of the trade union, how do you explain or justify the practice of personal violence upon the strike-breaker, or the practice of boycott upon third parties? To such a question I could make answer that such exhibitions of contrast between the highest ideals of the mind and the practices of persons holding such ideals are the phenomena of history. The symbol of shame has become the symbol of adoration. The cross of sacrifice and suffering of self for all, even for those who crucified Him, was afterward embroidered upon the banners of those who in His name went forth to murder and destroy those for whom He died. It is easy to denounce the cruel wars and tortures, the burnings at the stake, the deaths by the headsman's axe, performed in the holy name of religion; but a study of these phenomena will reveal the cause of this seeming contradiction. Before we proceed to convict the trespassers upon government law, let us come before the high court of moral justice with clean hands, and not forever condemn the lamb for the filth of the stream that the wolf has befouled.

In entering upon this self-examination let us review our crude ideas of property and property rights and of humanity and human rights. The time assigned for the reading of this paper will permit but a suggestion for this examination. Time, skill, and endurance are the property of every sane man. The worker has a property right in his labor, in the exercise of which he

should not be curtailed except as the exercise of his right is an interference or injury to the property and human rights of another person or of other persons. Permit the further suggestion that he who, by the use of his property rights, jeopardizes other property holders in the use of their rights by entering into an agreement with those who control the opportunities of laboring, to the disadvantage and injury of other laborers, is a trespasser upon the property rights and opportunities of other laborers. The man on strike does not give up his job or his equity in his unpaid earnings. He is forced to strike in order to obtain an accounting or a farther and larger payment in the account between the partners in production. When the law recognizes the property rights of the wage-worker, then some court of adjudication will settle what is now sought to be settled by strikes.

The deepest, darkest stains upon the pages of history were not imprinted there by the acts of the poor, but by the acts of the rich; not by the acts of the ignorant, but by the acts of the learned; not by the so-called lawless, but by the so-called law-abiding. The unjust judge, the timid, cowardly, time-serving, power-serving judge, who washes his hands in the waters of his impotence, will declare that the demand of the prosecutor is the judgment of the court. The violent deeds performed in an industrial battle are as a speck of dust in a cyclone compared to the great bulk of violence performed in the name of property and law, as witness all history, ancient and modern; as witness the wars of Europe and of our own dear land, waging a war of aggression against the weak and the poor—a republic of the West crushing the aspirations of those who seek to establish a government of their own in the islands of the Orient; violence

against persons once our friends and allies; violence against the fundamental law of our country; violence against the manhood of America; violence against the present and the future. If war is justifiable, violence is justifiable. I cannot justify war.

The trade unions know the danger of the boycott, and they know that the evil influences of an unjust boycott will react with twofold force against the union; hence great restraints have been placed upon the use of this dangerous weapon. Political boycotts of candidates upon a party ticket because of the presence there of the name of a notoriously unworthy and corrupt man have resulted in great public benefits, in the destruction of the party ring which cunningly placed the name of worthy men upon the ticket in order to carry the election of their special candidate and tool. Would not such a boycott work for the honor and welfare of communities within our knowledge?

Again some one asks, "How do you justify or excuse acts of intimidation?" Nothing is excusable that is not justifiable; intimidation is the historic weapon of the employing class. Intimidation has been practiced in nearly every community by the managers of nearly every important manufacturing enterprise. Said the manager of a large manufacturing establishment to a physician of my acquaintance, "If I saw three or four men talking together and had reason to believe that they were attempting to form a trade union, I would discharge them and follow them into every community where the industry was conducted." Intimidation is regularly and systematically conducted, but since the growth of the trade unions of the employees to their present power the practice has been somewhat relaxed. Intimidation begets intimidation, and some of the

workers, having learned the lesson by bitter experience, use the weapon against others ; but intimidation is no part of trade union ethics, ideals, or laws.

The boycott of third parties may not only be justified, but may be commended. A man of large wealth and of vulgar habits and vulgar language conducted a manufactory in one of our cities. He employed a few women and many girls. His conduct was such as to warrant his arrest and imprisonment, but all attempts were futile. He could produce articles so much more cheaply than others that merchants in full knowledge of his vile character purchased his wares until the merchants were boycotted by an indignant community and the manufacturer was driven out of the city by his inability to sell his products. This boycott was not conducted alone by trade unions, although trade unionists exposed the conditions that led to the boycott. Granted that the boycott is a very dangerous weapon and that an unwarranted and unjustifiable boycott is an offence deserving of the severest condemnation and punishment and that such unjust boycotts have occurred, nevertheless the unqualified condemnation of the boycott of third persons is foolish in the extreme. The patriot fathers not only boycotted the taxed tea, but they also successfully boycotted all those parties who dealt in the boycotted tea. They not only boycotted the merchants who dealt in the boycotted goods, but they also boycotted whomever they could reach who sympathized with Great Britain in her acts of oppression.

Those who claim that increased wages mean increased cost of production have not studied the history of industry. The cost of an article is regulated more by the number of the articles demanded, that is, by the condition of the market, than by any other cause. Each additional movement toward a shorter workday, each accom-

plishment of a shorter workday, is probably the greatest material and moral influence for the uplifting of humanity. The most highly paid labor produces things at much less material as well as moral cost than can any low paid labor. The improvements in processes of manufacture and of distribution follow advances in the wages to laborers. The reduction of the hours of labor is placing the lever of civilization under the humblest man and lifting him up to the enjoyment of the opportunities of civilization. The added intelligence that comes from less hours of labor prompts sacrifice and devotion to the interests of his class, and will result in the inauguration of a system of industry under which there will be no master and no slave.

We do not agree that laborers should work all the hours they can. Work under present conditions is a monotonous, mind-destroying operation ; and a reduction of hours to eight or six would be justified, if for no other reason, by the fact that such labor is destructive. A reduction of the hours of labor to six or four would give to the laborer all the opportunities for work in which he might well exult. Work with health and happiness and love in it ; work, not the unrequited, hopeless, monotonous, unlovable drudgery of the modern machine-tending and labor-subdividing operative, but work in which the workman sees a completed whole ; work that develops the mind as well as the body, and quickens the moral sense of independence, in mutual dependence ; work, not as in the modern industrial prison factory and workshop, where personal identity is lost and silence is the rule for the long, monotonous days, but work where the worker realizes his *Ego* and is proud that he is a part and a partner in the great mutual effort

to create wealth, as he is also a partner in the enjoyment of the fruits of the joint labor,—this is the ideal of the trade unions.

Trade unions are not concerned in the theories of the theologians or college professors or university presidents as to the interpretation of the Scriptures. The unionist may agree or disagree with those who hold that the so-called curse of labor is a handicap. The words of ancient writ, "in the sweat of thy brow shalt thou eat bread," does not so much disturb the trade unionist as does the fact that he, the laborer, does earn the bread he eats and the bread, cake, and wine that others eat and drink. He knows that he is not only sweated at his work, but that he is sweated in his earnings,—is sweated as producer and consumer. "Upon his back are the burdens of the world." His sweat, his sacrifice, his blood are coined in the mint of the capitalists into the coin that endows colleges and that furnishes libraries to cities and towns.

The trade union ideal is that he who gives shall give of his own personal effort, sacrifice, and devotion, and not attempt to square his conscience with his conduct by the reverse of the Robin Hood method. Trade union ideals are as humble as the tenant of the poorest hovel of the villain of a feudal duke; as humble as the dweller in a tenement house shelter, where the wage-slaves of the arrogant rich exist until death or the trade union relieves them. Trade union ideas are as exalted as human aspirations, quickened by the divine inspiration of comradeship in the old, old cause of the emancipation of labor and the achievement of equity. Trade union ideals are worked out, not dreamed out. By slow and painful steps, blood-stained, the laborer marches on,

"through deserts wide of poverty and want," over marshlands where the quagmires and quicksands of deceit endanger his trembling steps, over the streams of culture's brutal contempt, up the barren hills of opportunity, across the wide plain of indifference, and will reach at last the promised land, by poet and prophet long foretold, the land of peace, of liberty, of fraternity, and of equality.

TRADE UNION IDEALS

FRANK K. FOSTER

Reduced to its simplest form of expression, the trade union is an association of men of a craft or calling who unite their efforts along specific lines in order to better their condition. It may fairly be asked why such an organization should be expected or required to formulate its ideals, any more than a manufacturers' or a mine owners' association should be so expected or required. The articles of association under which these latter organizations exist are not popularly supposed to "come out strong," in the words of that consistent optimist, Mark Tapley, as to ideals.

I find myself, moreover, somewhat in doubt as to the precise meaning of the topic assigned. On consulting the lexicon I find that the synonyms for "ideal" are "fanciful," "imaginary," "unreal," "visionary," while among its antonyms are "actual," "real," "tangible," "visible." It cannot be supposed that this association desires a discussion of something unreal and imaginary. Trade unionism is, if anything, a concrete and positive fact. In the words of Carlyle, "The shadow on the dial advances without pausing. This that they call the organization of labor, if well understood, is the problem of the whole future for all who will in the future govern mankind." It may be assumed, then, that the ideal submitted for our analysis is "that which is conceived of or taken as a standard of excellence or ultimate object of attainment, whether a concrete object or a mere conception;" and it is this definition which I shall apply to the ideals of the trade union.

It may be well, for the moment, to consider the salient

facts of trade unionism. These facts are that among the English-speaking people alone there are over five millions of wage-earners who are trade unionists, and that their numbers are rapidly increasing. These organizations have not come into existence as the result of the teachings of any university or of a philosophy devised by any political economist; neither are they the result of a sentiment manufactured by irresponsible demagogues. They are rather the evolutionary outcome of generations of experience; a growth out of the needs of the daily lives of those who perform manual labor. The achievements of the trade union have been varied and manifold. It has shortened the working day and raised wages. It has lessened shop tyranny and obtained improved sanitary conditions in the factory. It has prevented overwork of women and children and increased the opportunities for the education of the latter. It has made war on the truck system and insisted on more frequent payments for the wage-earner. It has insured its members, assisted them when out of work, and provided for their burial when dead. It has helped to level the barriers of race, has taught fraternity and fidelity, and has broadened the horizon of millions of lives. Its justification does not depend upon its theories or promises, but upon its past accomplishments.

But as Choate said of patriotism, so the wage-earner may say of his craft union, "It is not enough that our arithmetic should compute its value and find it high, our hearts should hold it priceless." What, then, are the ultimate objects of trade unionism? What are the practical methods by which these objects are sought to be obtained? What is the vital essence of this world-wide movement which inspires vast numbers of individuals towards a common purpose? What is the inner mean-

ing of this fealty to union principles which so strongly influences the course of so many lives and, acting through these lives, the course of economic and social affairs?

Trade unions are opportunist in their philosophy and in their practice. With the sage Ulysses they may say, "I am a part of all that I have met." Thus contact with tyranny sometimes makes them tyrannical; intolerance begets narrowness; unjudicial persecution breeds in them distrust of the judge; and, conversely, frank recognition and fair consideration of their claims stimulates their conciliatory spirit. The trade union "despises not the day of small things." A trifling increase in wages here, a few more moments of daily leisure there, the removal of some irksome shop rule, the amelioration of some injustice in the routine of toil,—these small advances, in the aggregate, count mightily for progress. Trade unions are not wont to indulge in high-sounding platforms or empty platitudes. Beecher once said that socialists were forever sitting on an egg which they never hatched. The record of things done by trade unions bars any such criticism upon them. Rather, in the words of the Cambridge poet, they may exclaim:

"We have not wings, we cannot soar,
But we have feet, to scale and climb
By slow degrees, by more and more,
The lofty summits of our time."

Now the first step in the difficult ascent is effective organization. Therefore the primary "object of attainment" of the trade union is the thorough and scientific organization of wage-earners in order that they may secure, as sellers of the commodity of labor, at least an equality of bargaining power with the buyer of

labor. It is surely too late in the day for the necessity of asserting the utility of associated effort as a means for promoting economic, political, or social interests. As Mazzini wrote, "The time has arrived when the principle of association should become the starting point of any theoretical or practical study having for its aim the progressive organization of human society." The acumen of the capitalist has long led him to exploit the principle of the elimination of needless and unwise competition among those of like interests. With the object lesson of combine, pool, trust, and merger looming large before his sight, pray why should not the wage-earner say, like that thrifty but atrabiliary financier of Venice, "It shall go hard but I will better the instruction."

Very many worthy people who have never felt called upon to register their protest against the continuance of the undoubted ills under which the laborer has toiled find themselves suddenly inspired with alarm as to the danger of unionism's infringing the liberty of the non-unionist to sell his labor "how, when, and where he pleases." While this solicitude is doubtless most creditable and commendable, albeit somewhat tardy, it may be suggested that if the doctrine of equal rights is to be relied upon to warrant this gratuitous championship of the "rights" of the laborer to a free market as against the endeavors of the trade unions to control the labor market, it must surely be granted that an equal privilege must be conceded the unionist to sell or to refuse to sell his labor "how, when, and where he pleases." And if by long and patient endeavor and by expenditure of money and effort the unionist has succeeded in raising the standard of wages and in improving general conditions of employment, by what unique logic is he to be

condemned for refusing to sell his labor save under conditions approved of by himself?

Professor Bascom in his "Social theory" puts the case fairly as follows: "When a strike is in progress, attended with much suffering, and non-union workmen accept the rejected service, they are taking labor they have not themselves secured, and by so doing are aiding to bring about a reduction. The case is one in which the plea of industrial liberty is brought in a deceptive way against social progress. The individual in a general movement for the public welfare must concede something of his personal liberty. A compulsory organic force gets hold of him and he must respond." The trade union policy concedes the legal right of the strike-breaker to earn his diploma of Doctor of Heroics, the latest addition to the degrees conferred by the head of Harvard University, but it emphatically denies his moral right so to do. Industry is honorable, when honorably applied and directed. But the man who labors, however assiduously, at that work which makes for the public detriment is not usually deemed a fit person for canonization.

It follows, therefore, that if the positive value of the trade union in raising the standards of living of those who most need such assistance can be demonstrated, then the man who does more than any other agent to nullify and render futile the efforts of trade unionism, though he be buttressed by a thousand statute laws and extolled by all the university presidents in the world, is none the less a moral renegade, a traitor to his class and kind, and a despicable object in the eyes of his fellows. Is it greatly to be wondered at that the trade unionist not only feels some slight amazement at, but also some suspicion as to the judicial calibre of, his critic who so far departs from

the customary verdicts of society as to proclaim the individual who deliberately antagonizes the efforts of his associates to better their condition in life as the possessor of exceptional merit and deserving of public commendation? And with all due deference let it be asked, What propagandist of revolution and of class hatred in the wage-earner's sphere of life could in a hundred inflammatory utterances have so developed the wage-earner's lurking distrust lest some of our higher institutions of learning are permeated with a spirit of phariseism as has the recent public endorsement by a university president of the very type of humanity held in the utmost contempt by the organized workers of the entire civilized world?

A common accusation against trade unions is that they are selfish. It would be more in accordance with the truth to say that self-interest is a powerful factor in causing men to form unions and in shaping the policy of the organization. The suggestion is possibly to be permitted that from the days of Adam to those of Adam Smith, and even in our own altruistic age, most individuals and associations of individuals have been more or less dominated by self-interest. There is nothing necessarily incompatible between self-interest and idealism. In avoiding needless exposure to contagious disease, in obeying proper sanitary laws, etc., one serves the entire community none the less because his self-interest impels him to this course. If it can be demonstrated—and that it can is our contention—that the self-interest of trade unions impels them to raise the standard of living of wage-earners, and indirectly that of a community, such self-interest works for one of the ideals of the highest civilization. The trade union makes for high wages. Its ideal would be such an absorption of

the margin of profit into wages for the manual laborer as would leave a reasonable balance to be applied to the wages of superintendence and to a return upon capital invested.

Numerous attempts have been made to commit trade unionism to the doctrine of the collective ownership of all the means of production and distribution, but so far the American movement has chosen not to accept the ideal of socialism. The saner judgment of the majority of trade unionists has held fast to the phrase of John Swinton, "First things first." While trade unions have steadfastly maintained that the producer, rather than production, should be the chief object of social institutions, they have nevertheless recognized the rights of property and the fact that our entire social order is based upon security in private acquisition and possession of property, subject necessarily to the limitation by the rights of the public. It is this attitude of the trade union which differentiates its philosophy from that of the so-called more "radical" schools of social reform, which is made the object of continued assault by the propagandists of the school of Marx with their fallacious, though ingenious, postulate of collective ownership and the measurement of social values by the scale of time employed in production.

But the circumference of the wages question embraces much more than the mere fact of money remuneration for labor sold. "I do not hesitate to say," wrote Arnold Toynbee, "that in dealing with the question of wages, you cannot separate it from the whole question of human life." The significance of this truth is manifest when one reflects what the difference of a dollar or so a day in wages means to the average wage-earner. To those receiving high salaries or drawing large incomes

the difference would mean little. To the man or woman, however, existing under the pressure of Lassalle's "iron law of wages," which ever tends to reduce the rate of wages to the level upon which subsistence is barely possible, it means much more than the curtailing of a few luxuries. It means the difference between a comfortable home and a squalid tenement, between a thorough and a meagre education for the children, between the means of exercising one's higher faculties and the routine existence where "to-morrow and to-morrow and to-inorrow creeps on its petty pace from day to day." It means, in brief, the difference between a high and a low standard of living, which in itself largely determines the standard of intelligence, of citizenship, of civilization.

Closely related to the trade union demand for high wages is the demand for a shorter workday. The "ultimate object of attainment" in this direction may fairly be stated to be such a reduction as (1) will distribute among the wage-earners the advantages accruing from improved processes of production, from labor-saving and profit-making machinery, and from the results of applied science; (2) will absorb the surplus of unemployed labor; and (3) will increase to the normal the "chance of life" of those whose existence is now shortened through unhealthful or dangerous conditions of employment. The limitations of space forbid a detailed statement of the far-reaching philosophy of the shorter-hour demand in both its economic and social bearings. It may be helpful, however, briefly to consider what it is not. In an argument against the limitations of the working day, no less an authority than the very distinguished president of Harvard University, speaking before the Economic Club of Boston, recently said, "The only

limit that a man should desire to put on labor is the amount his bodily health and strength will permit. I don't want my labor limited to any less, that much is joy; and I voice a profound contempt for the man who wishes to do less than he can. . . . Money doesn't pay the laborer; besides this there is the joy of taking part in the great machine of men and women working together to produce as much as possible." A higher authority, Herbert Spencer, has said that the best definition of happiness is freedom to exercise one's faculties.

Now if the "full consummate blossom" of civilization has produced men whose faculties find their fullest employment in the mechanical routine of shop and factory life,—in driving millions of tacks each in the same manner, in tending an automatic machine which requires the infinite repetition of the same motion, in performing the specialized functions into which modern trades have been differentiated, or in doing the dirty and laborious work of the common laborer,—then the academic theory of the partial payment of the laborer by the "joy of work" is to be justified. The exercise of the creative and artistic faculty is held to be a "joy" by every genuine artisan. But it is not the fault of the wage-earner that the limitations of his employment debar him from following the artistic example of a William Morris or from applying the theories of Ruskin. Like another Caliban, he is pent up by the irresistible power of the magician who in this instance works mightily for cheapness of production, careless of the cheapened producer. It is entirely conceivable to the average wage-earner that the president of a great university may find joy in the strenuous and potential work of shaping and directing the intellectual development of thousands

of the fortunate youth of the land, but he none the less marvels that one who has been found worthy to fill this lofty function should so totally have lost touch with wage-earners and should hold, doubtless sincerely, such a remarkable misconception of the environment and aspirations of those who sell their daily labor for daily bread. In view of these deliverances, one understands what Charles Dickens meant when, writing to Wilkie Collins, he speaks of working people having their "wretchedness chalked out for them with such extraordinary complacency by political economists."

The trade union ideal of a shorter workday draws its inspiration primarily, not from a desire for time in which to idle or to dissipate, but for time in which to exercise those faculties which are too often restricted, dwarfed, and stunted by the customary conditions of wage-earning employment. Kindly natured Charles Lamb wrote, "I have lived fifty years, but if I take from that period the time I have lived for others' benefit, I am yet but a boy." It should be borne in mind that the actual time in which the wage-earner owns himself, physically as well as mentally, after deducting the hours of his daily toil, the time occupied going to and from work, and that absolutely required for the rest and repair of his system, is comparatively small. Therefore a ten per cent reduction in the length of the working day means in reality an increase of thirty-three per cent in the time in which the wage-earner is at liberty to act as a free agent.

In order to justify the trade union demand for a shorter workday, it is by no means necessary to assume that all, or even most, wage-earners will at once make the best possible use of additional leisure. It is not set down in the chronicles of any age that even the so-called

leisure classes have so rendered an account of their stewardship. But the contention of trade unions is that reasonable leisure is an essential requisite for the production of the most efficient labor, for intelligent citizenship, and for well-balanced men. The relative status of industrial peoples appears to substantiate this claim, for the union of these qualities is coexistent only where the shortened workday prevails. The reason for this is by no means obscure. The man who, as Carlisle says, "expends his energy grinding in the treadmill of industry" has no surplus strength to expend in pursuing those things which make for the higher levels of being. His inevitable tendency is to sink into a rut. The strenuous tension of modern industry exhausts his vitality. But it may be said, and often is, that this is all a question of degree; that the modern workday gives sufficient leisure and opportunity for the wage-earner. It all depends upon the point of view. If the Gradgrind conception of the desirable laborer—simply hands and a stomach—is to be accepted as our ideal, then the foregoing assertion is undoubtedly correct. The old Tory idea that education beyond the three R's tends to spoil the workman by making him discontented with his lot yet lurks in the minds of many estimable people. I once heard a mill lord of a Manchester, N. H., corporation so testify before the United States Senate committee on education and labor. But the trade unionist conceives that he is an equal "heir to all the ages" with his compeers; that also for him and his, science has wrought, the artist dreamed, and the poet sung.

Here, indeed, is the real and vital test of democracy, of American institutions. The town meeting and the public school, the free press and freedom of discussion, have brought forth a new plebeian,—if he will accept

that term at all,—widely divergent in type from that older citizen who made holiday in the Roman streets when imperial Caesar brought his captives home to Rome; more widely divergent yet from the laborer of the feudal era, “when service wrought for duty not for meed;” a distinct variant, moreover, from the poorly paid and illiterate toiler under old world despotisms of to-day, where environment throttles ambition and the lines of caste are rigid and unyielding. As the reed in the olden legend, fashioned by the great god Pan into an instrument of melody, was “nevermore a reed again,” so the American wage-earner, vitalized and inspired by the breath of democracy, by the knowledge that has come through opportunity, will no longer content himself with the lot of his narrow-foreheaded predecessors. With what less than the ideals of trade unionism can those who dwell in the lordly “House of Have” expect the twentieth century workman to be satisfied?

This “commodity of labor,” so long held by the Manchester school of political economists to be the subject of arbitrary regulation by the inexorable law of supply and demand, has at length demonstrated that it is a commodity plus a human organism, an organism with the power of volition, whose exercise can and does materially modify the quantity of the commodity to be placed upon the market. For good or for ill the wants of the laborer have multiplied, his faculties have become developed, and his aspirations have been awakened. It is the glory of trade unionism that it has played no small part in arousing in him that righteous discontent which impels him, like *Oliver Twist*, to ask for more and ever more—but unlike the timid charity boy he is not to be brow-beaten by the officious Bumbles of conservatism. Here, I say again, is the test which shall stretch

to the uttermost the elasticity of democratic institutions. It is scarcely a kindness to breed men in the faith of political equality if industrially they are forced to submit to despotism. It is not wise to awaken in them a thirst for knowledge if they have not means and leisure to slake this thirst. It is highly injudicious to permit them to acquire an appreciation of the beautiful in art and nature if by the conditions of their employment the major portion of their existence must be spent in unremitting toil among base and unpleasant environments.

But entirely apart from this phase of the subject the trade unionist holds that existing physical conditions among wage-earners justify the shorter hour demand, and will continue to justify it while the "chance of life" of any number of the working class is, by reason of the conditions of employment, less than that of a like number of the same age of the so-called independent classes. In other words, the trade union ideal maintains that the social service rendered by the manual laborer justifies him in insisting that society has no right to expect him to shorten his life below the normal limit by reason of ill conditions in this service which may be remedied. That the average wage-earner is compelled to do this under the present working day is amply evidenced by a multiplicity of statistical data, especially by the table of risks issued by insurance companies. It is no flight of the imagination to claim that the total mortality upon the battlefields of industry exceeds that of the most sanguinary conflicts presided over by the great commanders of bloody wars. The stories of the latter are written large on the historian's page. The former are the commonplaces of peace, unchronicled and unsung. It is one of the strongest counts in the social indictment that multitudes of men,

women, and children die before their time, because they are manual laborers. Many perish of overwork, of that fateful and merciless tension which comes from trying to keep pace with the giants of steel and steam, which are never hungry and never tired. Others succumb to vitiated atmospheres, to poisonous fumes from chemicals, to unhealthy and cramped positions while at work. The mine swallows its regiment of victims, the number of employees injured or killed on transportation lines mounts to startling figures. The widespread application of electricity has brought added perils to large classes of workers, as has also the construction of the great steel buildings of modern business. Factory life produces anæmic hosts, who fall an easy prey to the germs of disease. But the list is too long for even mere enumeration.

One of the very first efforts of trade unionism was exerted for the protection of the children of the shop and factory, and, wherever practicable, for the abolition of the labor of young children. The story of the work of the British trade unions in this direction is too well known to need repetition. The factory laws of the northern states are almost entirely the product of the agitation commenced and carried on by the organizations of labor, and with the growth of southern trade-unionism a like agitation is developing in that section of the country. The recent testimony before the commission appointed to investigate the coal strike would seem to indicate, however, that in the North Pennsylvania, at least, yet offers a most inviting missionary field for further effort in this direction. During the last session of the Massachusetts legislature the committee of the Massachusetts Federation of Labor was compelled to oppose an effort, emanating ostensibly from several

salaried school superintendents, to break down the present law relating to the school age. It does not lessen the credit due trade unionism for what it has done towards securing the physical and mental welfare of the children of the poor that it has been obliged to contend against the opposition of selfish and ignorant parents among working-people, as well as with the desire of some employers to obtain the cheapest of labor. The able and adroit attorneys of these employers have repeatedly raised the hypocritical plea that the trade union measures of child labor legislation would work harm to the "widows and orphans"—like commercial *Tartuffes* assuming a virtue to shield their mercenary intent.

Of all the manifold tragedies of modern industrialism, the saddest is that enacted by the children of the factory and sweat-shop, robbed of that youthful playtime which nature grants to even her dumb creatures of the wood and field, and which should especially be the heritage of the children of an era rich and opulent beyond all former times. Here, indeed, the doctrine of Rousseau would seem to be justified, if from out all the splendor of civilization the children of the poor are to be given the Dead Sea fruit of lives mentally and physically handicapped. The trade union says: "Room for the children! Give them time to grow, to mature, to learn. Upon them you must build the social order of the future. Beware lest you build on weakened foundations and your lofty structure topple and tumble to the ground."

The trade union teaches the philosophy of self-help, a philosophy all the more to be commended because of the growth of the superstition that the state is a fairy god-mother, whose largess is to be poured out without stint upon her beneficiaries. Bruised by the stern realities of

existence, it is not so much to be wondered at that the average wage-earner is all too ready to listen to the blandishments of social empirics who deal in panaceas for industrial ills, unfettered in their assurances of miracles to be performed by any qualifying sense of the defective structure of the organism for which they prescribe or of the unstable nature of the remedies which they offer. It is no part of the trade union propaganda to persuade wage-earners that something can be obtained for nothing. Its utmost claim is that the trade union form of organization, properly financed and judiciously directed, will secure to its membership large material and moral advantages. Such an organization is akin to an improved machine, whose effectiveness may be sadly bungled by clumsy operators, but which under skillful management adds vastly to the capacity of individual effort. There is a tradition that Abraham Lincoln was once asked what should be the proper length of the leg of a man of given height. "I should say," replied that statesman, "that it should at least be long enough to reach the ground." It is to be feared that not all zealous reformers, in their efforts for the advancement of the human race, sufficiently bear in mind that natural law of locomotion which necessitates keeping one's feet upon something tangible. But as a most unfortunate genius wrote,

"It is not sweet, with nimble feet,
To dance upon the air."

Trade unionism endeavors to avoid such a catastrophe by adapting its methods to the capacities and limitations of its membership.

The trade union ideal is of progress by lawful and orderly methods. Journalistic sensationalism magnifies

sporadic instances of disorder in the labor world, as it does in the community at large. One case of assault and battery perpetrated by a union striker receives a larger head-line than is devoted to a thousand gracious acts of fraternity and charity, of mutual helpfulness and uplifting, for which unionism is far more responsible. Trade unions neither teach nor uphold violence. Men fail to live up to ideals in the churches, in the state, in the commercial world, in fraternal orders, but public judgment in these cases does not condemn the institution for the misdeeds of the individual. Why, then, should trade unions bear the *onus* of overt acts committed in direct violation of their teaching?

Doctor Bartol was once asked if Christianity were a failure. "I don't know," he is said to have replied, "it has never been tried." By the same token trade unions may fairly ask for suspension of condemnatory judgment in cases of industrial disorder until their relative influence for good or ill is properly estimated. "We are never aware," said that eminent scientist, Sir William Hamilton, "of the existence of our organism, except as it is somehow affected." Possibly this may account for the present public interest in the organization of labor. The social organism has been somehow and somewhat affected by recent memorable happenings in the labor world. Of this awakened interest trade unionism is fully aware and duly appreciative. It cordially welcomes the scrutiny of thoughtful students and the criticism of honest and fair minded men. It has even tolerance for those *dilettante* and superior people who examine its structure in much the same spirit as they look through a microscope at the antennæ of a rare bug or at some new species of mollusk brought up from the depths of the ocean.

But when all is said and done, the central truth confronts us that the ideals of trade unionists may not be differentiated from the ideals of civilized humanity at large. To obtain a fair return for useful labor, to be able to provide for times of sickness and old age, to place those dependent upon one in security against want, to obtain sufficient leisure to enable one to lay hold of those things which make the possibilities of human life larger than those of the existence of the brute creation,—these things are the universal desire of civilized men, as well as the objects sought to be attained by trade unionists. The trade union is here and here to stay. It can neither be legislated, enjoined, or otherwise coerced out of existence. It has become an integral part of the social structure. Its mobility will enable it to adjust itself to whatsoever new conditions may arise. Its ideals will mount higher and higher under the impulsion of all those elemental forces inherent in free institutions which broaden the knowledge and increase the capacities of mankind.

TRADE UNION IDEALS—DISCUSSION

SIMEON B. CHASE: As an exhibition of idealism the interesting paper just read is certainly very attractive, and I have nothing to say against it; but as the speaker well said, ideals are not always lived up to by trade unions or by any other organization.

As a manufacturer I have had a good deal of dealings with trade unions. That I am a friend of trade unions can be easily established if you will visit the community from which I come; I have always tried to be in accord with them, but I realize that in practical, every day affairs trade unions make mistakes. I also realize that in practical life the manufacturers make some mistakes—a good many mistakes on both sides. On both sides there is an inherent element of self-interest, of selfishness if we put it stronger, which is not easily eliminated and which leads to excess.

It is of course desirable that the people represented in trade unions shall obtain from the current product in the way of wages all that it is possible for them to squeeze out of the manufacturer, but it must be borne in mind that this amount that can be squeezed out is limited. It is proper to advocate and to try to bring about a shorter working day, but it must be remembered that the shorter working day also has its limitations.

The farmer of fifty years ago, when almost every one was a farmer, could but little more than feed himself and his family. To-day, with the improved methods, improved machinery, and more applied intelligence, the farmer can feed hundreds on the labor of one man. He can work fewer hours because he is enabled in these hours to produce enough for his own wants and

to exchange with others for comforts and luxuries. The farmer to-day gets much more leisure than the farmer then got—and yet farmers do not belong to trade unions.

In 1812 power weaving was introduced into the town from which I come. By working from seventy-two to eighty-four hours per week, the weaver at that time could produce about two hundred yards of a certain kind of cloth then made, receiving as wages less than two dollars per week. This is a matter of record on the books of corporations now in existence. At the present time a weaver working sixty hours per week can produce four thousand yards of the same fabric, and will receive from five to six times the amount of money that was then received. At that time a weaver's weekly wage would buy from five to seven yards of his own product; to-day a weaver's weekly wage will buy from three to four hundred yards of his own product. What has brought about this marvelous change? I do not think that my friend will claim that it is all due to trade unions. Brains have been at work in inventing and applying new machinery, which, in turn, has helped along the trade unions' cause of increased wages and shortened hours.

And right here is where I bring in my chief criticism of trade unionism as it applies to our industry, as I have come in contact with it. So far as my knowledge goes, every introduction of new methods and of new machinery and every application of the brains of the managers has met with the stubborn opposition of trade unions, and we are meeting it to-day in the industry I represent. This is the crying evil, so far as I understand it. The community will see that order is kept; but the community will not interfere between the laborer and the capitalist in the application of new methods and of new ma-

chinery to modern industry. If we are going to have short hours and maintain the standard of living and have as much wealth as we now have, it must be by the application of the same principles we have used in the past. This restriction in the use of modern machinery and appliances is therefore the most crying evil, so far as I have had to do with trade unions. Although it has been disclaimed here to-day, I know it is so, as I can prove to you if you will come to Fall River.

We need between the employer and the employee the thoughtful judgment of the public at large. We are sinners on both sides ; we do the things that we ought not to do, and leave undone the things we ought to do. I believe, however, that there is spirit enough in us to work out these problems, but we may never reach the ideal. I do not know that it would be well to reach the ideal set before us. What would we do if we did not have something ahead of us, something to hope for, something to struggle for ?

JESSE E. POPE : I feel very much in sympathy with the attitude of both Mr. McNeill and Mr. Foster. It is certainly true that if progress means anything it means a better living for the masses of humanity. Other things being equal, a shorter workday ordinarily means a less product ; and it seems to me that the question depends on our willingness to give up product and take leisure. I think that there is no doubt but that a better progress would be made, a more ideal condition would exist, if we were willing in some cases to take leisure and give up product. This is one of the points that I have always felt trade unionists did not recognize. Laborers feel that somewhere in the world there is a fund of which they are deprived, something

which, without increasing the output or increasing new wealth over old wealth in a given time, might give them more to eat, better homes, greater chance of travel. Now it seems to me that it behooves the people who believe this to show that there is such a product existing. I do not believe that it can be shown.

It also seems to me that the reason for the attitude of the manufacturer and business man against the trade unions is only on that delicate question of wages. People who are not engaged in business, who have not been obliged to get out at least such value as they put in, are unable fully to sympathize with the business man in this position. The other day I met some trade unionists from Cleveland who had come to New York to talk over with the trade unions there the conditions in the clothing industry. At the conference between the leaders of New York and the leaders from Cleveland one man said: "We have strong union conditions in Cleveland, but we have come here to ask how we are going to maintain those union conditions when our employers show us a coat that they have just received from New York which can there be made for \$2.69, but which, with the union conditions and cost of labor we have in Cleveland, they maintain they cannot make for less than \$2.80. They go on to say that if we maintain our union conditions in Cleveland, the manufacturer who is selling his coats in Omaha will buy those goods ready made up in New York." It seems to me that this is a very vital and difficult point to get around.

HUGO BILGRAM: I maintain that although trade unions assume a number of functions which are legitimate and beneficial, in what they consider their principal function they are a failure. It is generally

admitted that the remuneration of labor is lower than it should be. Producers are in some way compelled to share their products with those who have not assisted in production. Wages are low because the producers are deprived of a portion of the value they have produced. Now one of the chief functions claimed for trade unions is to raise wages by restoring to the workman a portion or all of that of which he is in some way deprived. But in this respect unions do not accomplish their object.

Labor unions aim to raise wages by coercive measures—by strikes or threats of strikes. But it is well known that whenever the cost of producing a thing has been increased by artificial means, the increased burden will, by virtue of competition, fall not upon the employer or dealer but upon the consumer. In other words, an increase in the cost of production resulting from strikes or threats of strikes will react upon the price of the products. While this may not be clearly manifest in every specific case, it is notwithstanding true in the aggregate. If, for illustration, trade unions could effect a doubling of wages, the prices of all products would in consequence rise to double their former rates, and the purchasing power of the nominally increased wages would be the same as it was before. Hence all efforts to raise wages by coercive measures must result in failure.

THOMAS N. CARVER: Some questions have been discussed here in which I am not personally interested, but which I assume to be pertinent to the question. I do not suppose that it is necessary to argue that laborers are justified in trying to get as high wages as they can, or that they are justified in organizing for that purpose.

That ought to be taken for granted. I shall certainly not insult the intelligence of a body of this kind by arguing that question. What I am interested in is the way in which the contest shall be carried on. Are the methods by which the trade unions are now trying to accomplish their purposes justifiable? Are we really interested in any other phase of the question? Granting that laborers are justified in organizing for the purpose of getting higher wages, are we to approve all possible methods of getting them? Even in the barbarous contest of football there are rules of the game, and a man may be disqualified for violating them. In the struggles of class against class society has one principal function to perform, that of enforcing the rules of the game. We are in a struggle and are fighting for our footing. Society lays down certain rules of the game, and if we violate these rules we are disqualified. That is the chief function, as I understand it, of organized society; and as members of society our chief interest in the question of trade unionism is limited to the narrow question, Are their methods justifiable?

The fact is, of course, that the conditions of labor are exceedingly bad, and the probabilities are that they will continue to be so, especially in the lower grades of labor. The only salvation for the laboring people, so far as I can see, is to avoid as they would a plague trades in which they are liable to be brought into competition with machinery. They must take it upon themselves to urge their children up into higher grades of labor wherever that is possible. But while the lower grades of labor are being forced upward, society should see to it that at the same time every opportunity is given to those who can rise to do so. For those who cannot I do not see that there is a very pleasing pros-

pect ahead. This gloomy prospect is, perhaps, a sufficient reason for judging their actions leniently.

MR. SWIFT: The last speaker as well as nearly all the others seem to think that for the larger number of the American people there is no chance. Let us examine, however, the course of to-day's discussion, particularly the discussion of a further chance for the workman of the future. This discussion assumes that industrial conditions are to remain practically as they are, and that trade unions are to go on hammering things as they now do, getting a little here and a little there.

Two great tendencies existing in society have been overlooked throughout. One of them is the rapid advance of consolidation on the part of capital, a tendency the result of which I think we can readily predict. This tendency has been going on for years, and will result in a complete consolidation of all industries. The other tendency is the movement to complete the organization of labor so that labor will form a complete, all-absorbing trade union with certain exceptions, the exception of possibly a large number of the unemployed. With capital solidly organized and labor solidly organized, the question will be this: Shall the standards which have been the prevailing standards, the hereditary standards, the standards of earlier times prevail? The struggle will be a contest to determine whether these standards are correct, and you will have the battle of the giants. That is the labor question, and all these other things being discussed are simply side issues.

DELMER E. HAWKINS: If trade unionism, as has been declared in substance here to-day by representatives of organized labor, means that organized labor has

undertaken itself not only to determine what is good and what is not good for all labor, but also to force, by means other than persuasion and moral influence, the non-union laborer to accept its views and to become union—if trade unionism, as has been said, means tyranny over non-union labor wherever and to whatever degree organized labor thinks tyranny justifiable from its own point of view, then the questions of unionism that now confront the United States and that will continue to confront the United States until they are settled and settled right are three: (1) Is it necessary that American liberty be abridged or extinguished in order that American wage labor, organized or unorganized, may progressively, rightfully, and naturally improve its conditions? (2) If it is necessary, how far and to what extent is it necessary? (3) If not necessary, how is organized labor to be brought to see that it is not necessary and be compelled to obey the laws that guarantee liberty?

These will be the questions for political economists, statesmen, practical politicians, employers, and employees, for they answer the one question here involved that is fundamental to all other questions in the matter and to all civilization and progress, the question of individual human liberty.

C. S. WALKER: The first president of this association has given us a definition of competition: the unrestrained operation of individual self-interest, each man acting for himself in exchange to get the most he can and give the least he must. For years the employers of England especially laid down this law for the settlement of all questions. The laborer had his labor to sell; the manufacturer had his commodity to sell. This

was the great law of the game, and the employers combined to enforce it to the bitter end. They said to their hundreds of workmen, "Let each man, acting for himself alone and by himself alone, sell his own labor the best he can." Now laboring men have learned the lesson which the English capitalist taught; they have organized and they act upon this law of the game, aiming to get the most they can and to give the least they must.

This law of competition brings destruction to the weaker party. Only the stronger party favors the law. If the parties are equally matched, the result is mutual destruction.

When seventy millions of the working people of the United States form one tremendous labor trust, fighting face to face with organized capital, there will be a revision of the law of competition, and the institution of this one: The efficient operation of a wise self-interest, designed always to promote the general welfare, while at the same time it secures the best interests of all parties to the exchange. Make this law of the general welfare the rule of the game, let the labor trust and the capital trust have a merger and form one big trust, and then there will be no more war between capital and labor. But there is one other party to come in, and that is the consumer. It is possible for capital and labor combined to wage war against the consumer in particular instances, but not generally, for in general the laborers and the capitalists are themselves the consumers of the wealth they create. Consumers are nevertheless parties to be considered. Let them join with capitalists and labor and form one big trust, then the question will be settled thoroughly.

A. W. FLUX: There are some things which I am stimulated to say by what has come up in the course of debate. The first is, I have yet to learn that there is generally any such considerable difference between the supply price and the demand price for labor as to enable the condition of labor to improve substantially on the basis of what has been suggested.

I should like also to make a reference to something Professor Carver has said. What are to be the rules of the game under which social life is to proceed? One particular rule was referred to in the course of this morning's discussion. What is to be the position of society in regard to one of the aims which certain trade unions place before themselves, viz., that they shall control the supply of labor in the particular trade they represent by setting up a somewhat arbitrary standard for admission to the trade? If we examine how that rule is going to work, I think we shall perhaps doubt the wisdom of too free an assertion of complete control on those lines by the rest of society. If each industry in turn should set up a like standard, what would we do with those excluded? I think the trade union authorities should consider very carefully what road they are running on in connection with various rules of the game.

THEODORE MARBURG: It is pleasant to note that excepting in the case of one speaker who I believe is not an employer of labor there has been sounded no hostile note against trade unions as such in the whole discussion to-day. The question is no longer one of form or organization, but one of conduct. The practices of the unions under discussion to-day should be considered from the standpoint of social justice and from the standpoint of their effect on the industrial product.

To further the cause of justice is one of the highest purposes of the modern state, and we fail in our duty when we countenance such practices as we witnessed in the coal region last summer, where there existed a condition of violence and persecution extending even to little children in the schools which was simply intolerable, and the repetition of which ought to be made impossible. As to the effect of trade union practices on the industrial product, limiting output not only limits the product, and therefore limits social wealth, but also is a stupid practice for the laborer himself, because, as we all know, his wages ultimately depend on what he produces. The situation is by no means so gloomy as it has been pictured. Organization, far from being feared, is to be welcomed; and the solution of the problem will probably come in this way: when employers as well as employees are thoroughly organized, the trade agreement, which solves many burning questions, will become possible. It deals directly with the questions of hours, wages, and limitation of output, and under it organizations become strong enough to suffer the presence of the non-union man.

MR. GRIGG: I wish that the public generally would recognize more fully than they do the existence of economic law, or of forces which certainly might be called economic law, in the establishment of prevailing rates of wages, not that I believe that this working of the economic law is sufficient to bring about conditions which we desire to have brought about, but that there is such a thing and that it should be more fully recognized is all I contend for. The cheap laborer needs as much, his family is as large, he is as good a man perhaps, but the conditions of supply and demand, the marginal pro-

ductivity of that class of labor, is a very different thing. This economic force is certainly in existence and must be recognized.

We must all recognize the most beneficent influence of labor unions when they are working along the lines of economic forces. We recognize that these economic forces do not work very exactly, that they do not establish a very exact rate of wage in any particular case, and we must recognize that laborers may through combination of special circumstances enhance the more natural rate of wages. We continually see the most beneficent work of labor unions in counteracting these forces and in working along these economic forces in bringing about a better condition. We must recognize their most beneficent work in bettering sanitary conditions and in many lines of that sort, and so long as the labor unions are working in this way they deserve the support of people who are working for the improvement of social conditions. It is quite possible, though, for a labor union under given conditions to advance wages beyond what would be a natural rate. In order to maintain this advanced position they must establish some sort of monopoly. I do not say that they have no right to establish as high a rate as they can, but as soon as they do this we must consider them as working not for the advancement of the whole class but for themselves.

HENRY W. FARNAM: The chief interest of the discussion which we have had this morning lies in what it indicates with regard to tendencies. Trade unions are nothing new, and they certainly will be much older before we are through with them. It is unwise, therefore, to assume that what is laid down now as their ideal is necessarily going to be their ideal a quarter of a century

hence. It has interested me very much so see how far practices advocated by the present leaders differ from those of a quarter of a century ago. In the ideals, too, as laid down this afternoon we may see a good deal of progress.

Not long ago the policy of deliberately restricting the output to make work was commonly advocated, and yet the spokesman of the unions here has distinctly disavowed it. That represents a decided advance. But we are not yet informed how far the trade union movement is going to assist in creating a fund out of which higher wages may be met. In the future I hope to see an advance along that line. I hope to see the trade union itself a real productive force, not merely aiming to get a larger share of the loaf, but itself assisting in making the loaf larger.

ISAAC HOURWICH: It seems to me that the gist of the discussion is the non-unionist. From my personal observation I do not see how a union agreement can be made otherwise than by insisting that all men who are employed in a shop shall belong to the union, otherwise the agreement is not worth the paper it is written on. You must take into consideration that when an agreement is made by a manufacturer with a labor union it is never done with a great deal of willingness. Both parties are trying to take advantage of each other, and certainly if there is any way to evade the terms of the agreement, each party will quickly avail itself of that opportunity. Suppose an agreement is made with a manufacturer that he shall pay a certain rate of wages. That agreement will bind the parties. Should the manufacturer have the privilege of engaging non-union men, having at the same time the privilege, as he always

has, of discharging men, what is there to prevent the manufacturer from gradually laying off all the union men under the pretense that there is no work for them, and substituting non-union men with whom they have no agreement? In that way the whole agreement can be made inoperative, and for this reason any lawyer who will advise a labor union will certainly insist upon the provision being inserted in the agreement that none but union members shall be employed.

ERNEST F. DU BRUL: Mr. Pfahler is certainly right when he says that the secrecy and coercion of trade unions are two things by which they shall be judged. "By their fruits ye shall know them." As to the so-called "peaceable persuasion," I want to impress as strongly as I can on the minds of this assembly that there is no such thing as peaceable persuasion. I have been through the picket line myself, dressed as a workingman, and I know the intimidation a man must suffer; it is something which workingmen could never resist. I was threatened with everything. My photograph was taken to be hung up in headquarters. I was to be blacklisted from one end of the country to the other, all because I chose, or seemingly chose, to exercise my free American right to go to work on such terms as were satisfactory to me.

It has been asked, Where are the great mass of non-union men? They are in the unions. The statement made about the Chicago shoe manufacturer by Professor George I think shows a typical instance. The great mass of members of the unions are there, not because they want to be, but because they must or think they must be there. When times change, when conditions

are such that these men find that they do not have to be in the unions, they drop out. I can give proof of that wherever the employers have become organized and disciplined. The fear of blacklisting by the union keeps more men there than does love of the union's principles and methods.

I can appreciate how the unions feel about the non-union men, but I have never seen the time when I felt we could coerce any employer into joining our employers' union, because I believe that as American citizens we are both barred from doing certain things. There is one distinction, however, between our union and theirs, and that is that we can stand up before any assembly and say that there is not one act that our organization has ever performed that will not bear the light of day. Our constitution and by-laws provide that we shall be subject to the constitution and laws of the United States and of the Dominion of Canada, into which we extend. I have yet to see a union constitution and by-laws providing any such thing. I have yet to see a union expel a man because he has been convicted of crime. Nearly every union constitution with which I am familiar provides that the president and executive board, or some other officials, shall be the judges, not only of the laws and constitution of the union, but of the *usages*—and those usages are not down in black and white; they do not dare put them there.

It has been said that the officers of unions do not stand for coercion and violence, that they do not approve of the restriction of output. Perhaps they do not, perhaps in secret a great many of them do. There is no telling; the unions are secret. It is a fact, however, that one of the fruits of unionism is the restriction of an establishment and of the machinery used therein. Denials can be made

in any way whatsoever, but here are the facts. I have placed a number of documents in the hands of Professor Commons in his investigation of the restriction of output. The machinists' union will strike against the premium system every time; they want nothing but day work. The minimum rate for the incompetent, wherever established, becomes in effect the maximum for the good man, and it cannot be expected to be otherwise.

It has been said that the union and the non-union men cannot mix, and I believe it is true, because the union will have it so wherever it can. Most employers would rather not discriminate against union men, but they are often compelled for self-preservation to shut the union man out of the shop because he insists on interfering with non-union men. Then the union raises the cry of blacklisting. Such blacklisting, if that is a proper name, has two sides. It is a compulsory blacklist. In such cases the union blacklists itself, and then raises a howl against the employer when its own bite hurts.

In speaking of the press, I want to say that this myth about the press favoring the employers has been exploded long ago by those who have been in strikes. Do you mean to tell me that to-day in the coal strike hearings all the things that are coming out there are being printed—brought out on both sides? From personal experience I cannot believe it. During strikes I have asked newspapers to put in a statement as to what the employers were standing for and fighting for, but they would not print it as we wanted it. When we asked them to print it at advertising rates they said that they did not want that kind of advertising.

As Mr. Pfahler well said, there have been no explanations of convictions for assault where unions are

implicated by the juries, nor have we any explanations as to why the fines are paid by the unions in criminal cases. One man, to-day an international president, then president of a local union, during a strike got up in court and swore that the struck firm was never even mentioned in the union. Thirty other men perjured themselves the same way. When we subpoenaed the books, the minutes were full of references, resolutions, committees, bills, all relating to that firm and signed by the president. One union man was pinned down by the court and compelled to answer as to whether his union oath or his duty as an American citizen was paramount, and he replied, "The union oath." The secret, oath-bound organization was superior to anything else. Judge them by their fruits. We will take the anti-injunction howl, and we will take the anti-militia howl. The Federation of Labor stands pledged for the anti-injunction bill. Why? Is an injunction in any way to injure or hinder any man who wants to keep within the law? Are union pickets for the purpose so cynically claimed by the president of the Allied Metal Mechanics Union? Are the pickets put around the plant to protect the plant from employers wishing to destroy their own property in order to bring odium on the unions? Tell that to the marines. The militia has not been shooting down peaceful citizens, and the injunction has not and never need be used against men who want to keep strictly within the law.

The strike position assumed by the union is this: "We have a proprietary interest in that job; when we leave it we must be allowed to go somewhere else to work, but we will not allow any one else to come here and take this work." Wherever the employer is strongly enough organized to put that same logic on them and

say, "Very well, if that is your job you shall have no other," then we get the blacklist howl again. When the employers are disorganized and have a divided interest, the union assumes that position and do all they can to maintain it; but when the employers are organized and put the union's own logic to work, they are called blacklisters, deserving of the most horrible punishments for interfering with the union's blacklist on the employer and on non-union men.

The public in this labor union question must drop sentimentality and get at the facts. I have a clipping recently taken from a labor paper saying that the union wants the wage question stripped of everything, bathtubs and all, except the mere exchange of dollars for labor, and wants that exchange on the best terms possible. If it were only that it would not be hard to arrive at some arrangement, but there are other things. The union control of shop, the denial of the right to exercise American freedom, the limitation of production,—these are things that our organization and many other organizations of employers stand pledged to oppose. We think and believe that the American people, without un-American distinctions or discriminations because of economic creeds or of racial, religious, or political differences, will fairly decide which organization, of employers or of employees, has shown itself to be the more worthy of consideration and has shown the greatest regard for law and for the rights of all persons.

FRANK K. FOSTER: Under the limitations of my topic, I did not feel at liberty to extend the bounds of my paper to the degree suggested by those who have criticised its scope.

The professor from Harvard has asserted that we have passed that stage where a discussion of right of labor to organize is necessary. I fear that this is not entirely true. Workingmen have made very great sacrifices for many years in order to establish the right to organize, and are even yet obliged to do so. Although we have 1500 trade unions in Massachusetts, it was not long ago that in many localities for an employee to be active in the formation of a union was, if the fact became known, equivalent to his inviting his own discharge. From the attitude of the coal mine owners of Pennsylvania it does not appear that the union of miners in this state was recognized until a potent outside force was brought to bear upon the employers.

The critics here to-day have begged the question of the alleged infringement by the trade unions of the personal liberty of the individual. The non-unionists are to be congratulated that such strenuous champions of their privileges have arisen to secure for them a consideration which they have never shown themselves especially solicitous to secure. But it should be noted that these same champions have not been in evidence in protesting against the long existing ills under which labor has suffered. They have been silent while the tragedies of the sweat shop and mines have been enacted. Why, then, this sudden fear lest liberty shall be infringed by the efforts of workingmen to better their condition?

Our government, the government of a Christian nation, "benevolently assimilates" some millions of little brown people on the other side of the globe—for their good, we are told. The trade union attempts the assimilation for their own good of those who are the agents in blocking greater freedom for labor. Some

gentlemen have lamented that unions persist in getting more wages despite economic law. If the upward pressure on the wage rate exercised by trade unions does not meet with the approval of some political economists, so much the worse for the political economists.

During my twenty-seven years' membership in a trade union I have sometimes doubted whether it is possible to arrive at a common focus of vision with those out of direct touch with the labor world as to these problems under discussion. The plane of vision accounts for much of the diversity of opinion here expressed. It has been said by one speaker that the thing to do was to discuss the rules of the industrial game. This may be so, but you can hardly expect those who are in the hurly-burly of the industrial conflict to regard with complacency those existing rules which allow the heaviest and strongest players to pile themselves on top of the wage-earner.

I know not where history reveals the fact of the possessors of advantage and of opportunity in the race of life having voluntarily given up their advantage. Some form of coercion has always been requisite to force them to do so. Under free institutions the laborer has been given the legal right to exercise certain kinds of coercion hitherto denied him. Free speech, labor organizations, the ballot, all represent this lately acquired force, and it may be conservatively asserted that the wage-earner proposes to use them all to accomplish the realization of his ideals.

In the last analysis the entire social problem is a question of the relationship of individuals. The spokesman for the Metal Trades Association has truly said that respect for each others' power is necessary in order that

men reach that point where they are willing to arbitrate with and conciliate each other. This is true of the great nations of the world ; it is also true of the opposing forces in the industrial order. Trade unions are militant organizations, but they are ready to hold out the olive branch when the disposition to receive it exists on the other side.

CURRENCY PROBLEMS IN THE ORIENT

JEREMIAH W. JENKS

In our heated discussions of the money question during the last few years there have been predictions of enhanced prosperity, forebodings of dire disaster ; but in our business life, with rare exceptions, we have had relatively little variety in experience to give us trustworthy data for sound judgment on the permanent effects of monetary changes. In the Orient, on the other hand, we find grouped together differing monetary systems under similar conditions, and similar monetary systems under differing conditions, so that we have a variety of experience from which we may perhaps hope to derive some rather general principles.

In this discussion I hope from a brief example or two, not indeed to derive new principles of monetary legislation, but rather to give new emphasis to some old principles by which we may attempt to forecast the general effect of a proposed change in a monetary system and possibly even roughly to measure the beneficial or injurious result of such change. I shall try, then, to apply briefly these principles to the situation in the Philippines.

Currency questions have usually been treated by economists in connection with the subject of the production of wealth, exchange being considered as part of the productive process. Lawmakers in their discussions have, of course, attempted to show how changes in the money system affect the welfare of the people. In their analyses they have spoken of the interests of the debtor *versus* those of the creditor classes. At times they have mentioned even the effects upon laborers and

house-keepers. In the last two presidential campaigns the analysis of social results went even somewhat farther. Speaking generally, however, the importance of considering the currency from the view point of the consumer, the man eating to live, using wealth to do his work, has been neglected. We have thought first of the effects of a change in the monetary system on the business community in general, only later of the way in which the change might cause a redistribution of wealth among different classes with a consequent change in the habits of life of these classes.

In the Orient, where the standard of living is low so that a partial failure of crops necessitates the remission of taxes in order to prevent starvation, one thinks more of the effects of changes in the currency upon social classes. Moreover the classes are so sharply divided that they are naturally kept separate in discussion. Orators speak less of debtors and creditors, or even of employers and laborers, but more of white men acting as bankers, traders, or planters, of Indians acting as rulers, merchants, or agriculturists, of the Chinese as traders or coolies, and of the various castes with their differing occupations. The whole social structure of the Orient thus leads to the consideration of most practical economic questions with reference to the various social classes.

From this point of view we may wisely consider the currency question, and illustrate by examples. The experiences of India in connection with its currency since 1872 have been most striking. Under the system of free coinage of silver, which obtained until 1893 while the value of silver was falling in comparison with gold, the value of the Indian rupee as compared with the English shilling was of course likewise falling at

rates varying from time to time. The total fall in the rupee from 1872 to 1893 was from some two shillings to less than thirteen pence for exchange on London. Practically half the value of the rupee was lost. Of course the British officials, whose pay had been largely in silver rupees but whose purchases were to a considerable extent goods manufactured in gold standard countries and whose savings were transmitted to England for use, naturally felt seriously the fall. They had, in effect, lost half their salaries except as the government had made compensation. Likewise the Indian government, with its large interest burden payable in gold, but with its income, speaking generally, receivable in silver rupees, felt the change. In consequence revisions of the tax rate and impositions of new taxes were employed to lessen the burden; but at length these measures seemed no longer practicable, and the government was forced to consider the question of some change in monetary policy.

As soon, however, as it was proposed to stop the free coinage of silver and to provide for fixing the rate of exchange with gold, vigorous protests were heard from many quarters. Especially loud in their protestations were many Englishmen who were producers of goods for export from India to England or to other gold standard countries and also certain classes of native agriculturists whose products were also intended chiefly for export. Time does not permit a discussion of the details regarding these clashing interests, but it is important to indicate the nature of the problem. How would the change of currency policy affect the different classes in the community?

The chief source of profit of the large bankers in the East has been in buying and selling exchange. Since

they, speaking generally, were better informed than most of their customers, although they at times lost from the fluctuation in the rates of exchange brought about by changes in the relative values of silver and gold, they usually gained. The manager of one of the great banks in Calcutta said a year ago, "Since the rate of exchange has been fixed we do not lie awake nights from anxiety so much as we used to, but the business is much less interesting, and while less risky, it is also less profitable."

Importing and exporting merchants were affected according to temperament. Those who enjoyed the excitement of speculation did not object to the fluctuations in exchange. They kept themselves well informed, took risks when it seemed advisable, and at other times were willing to pay somewhat to have the banks fix a rate of exchange in advance. Those who were more conservative and disliked the gambling element introduced by rapid fluctuations were eager for a fixed rate of exchange. In both cases it is perfectly clear that the element of risk partakes to a considerable extent of the nature of gambling, and that what one party makes the other loses.

This same principle, that what one party gains from a variation in the rate caused by a depreciating or fluctuating currency another loses, has not been so apparent in connection with the stimulus given to export trade by a falling rate of exchange. It has been repeatedly urged that business is greatly aided by a falling rate, inasmuch as those who produce for export, selling their goods at a steady price in a gold country, receive therefor a continually increasing quantity of silver; whereas their expenses, being paid mostly in silver, do not increase proportionately. To take, for example, the tea

producers of Ceylon. There can be no question but that for years they paid their laborers substantially the same rates of wages in silver rupees, while they received steadily, so far as this one factor was concerned, an increasing amount of silver. Under these circumstances they were continually profiting from the fall in silver, assuming, for the sake of the argument, that the gold price of their product remained the same. It is of course a fact that with these increasing profits competition among themselves, as well as the rapidly increasing output, tended to reduce materially the gold price of tea. That fact, however, is somewhat aside from the present argument. There was doubtless an immediate gain from the falling exchange.

In this case, now, did the laborer lose what his employer gained from the fall in silver? There is no evidence to show that he did. His articles of consumption were largely cocoanuts and rice or other grains, of which the prices were often not affected by the fall in the value of silver, but depended mainly upon local conditions substantially the same as did his wages. His wages, then, yielded him as many comforts as before, aside from the very little that was expended for imported cottons and similar material. The prices of these, though actually less from the fall in gold prices in England, still were kept higher by the fall in silver than they otherwise would have been. Is this, then, a case of a gain to the employer from the falling price of silver without a corresponding loss to some one else? We need to trace the rupees further. If the laborer in buying his food paid the rupees out to other natives whose articles of consumption were also not affected by the fall in the price of silver, no loss was yet felt; but eventually the rupees did come into the hands of those

who were in direct touch with gold exchange, and these were the losers. In the greater part of India it is probable that the eventual loser under these circumstances was generally the government. The rupees, passing through the hands of the natives, affected their lives comparatively little, inasmuch as they were consuming chiefly local goods; but when the government received them in taxes, inasmuch as its chief obligations had to be met in gold it suffered. And if instead of the government any individual, like a government official with business in England, one whose obligations had to be met in gold, received the rupees, he felt the loss corresponding to the tea planters' gain. Probably in most cases, as has been stated, the producer for export, native or European, gained ultimately rather at the expense of the government than of any special class in the community.

The gain to the exporter was also accompanied by a corresponding loss to the importer for consumption, who had to pay a steadily increasing number of rupees for the imported goods which he consumed. After the stoppage of free coinage in India had checked the fall in the value of the rupee and it in turn began to rise, each class was affected in a way opposite to that just described.

No shifting of the relative value of the currency, then, can be said, speaking generally, to benefit one class in the community without a corresponding loss on the part of some others in that community unless the change directly increases or lessens production. It is possible, however, that in individual cases this may be the effect. It is even probable that for a time the large profits secured by the Ceylon tea producers led to the investment of considerably more capital from Europe than would have

otherwise come. It seemed even to be the opinion of the Ceylon Currency Committee, appointed in 1893, that this added prosperity which had come through the stimulus to business was enough to more than offset the loss which had come to the government from the fall in exchange—and this may well be true. I have mentioned the tea producers. The same results, so far as this factor is concerned, were felt by the wheat growers, doubtless in part by cotton growers, as their product came into competition with a foreign product, and by others. The fact that there may have been an overproduction and a crisis, as really happened in tea production, does not affect this general conclusion.

On the other hand, for a country differently situated the fluctuations in the rate of exchange doubtless would discourage the investment of capital enough to more than offset the gain that would come to certain classes in the community. The first principle, then, which I wish to emphasize is this: Speaking generally (I grant minor exceptions), any gain which comes to one class in a country from a falling or rising value of the currency compared to that of another country with which it has business relations is substantially offset by a corresponding loss to another class.

If the class which gains is one that sells goods to or receives payment of obligations from the foreign country, the class which bears the corresponding loss is the one directly or indirectly buying goods from or paying obligations to that country. Other classes are not affected directly, though minor indirect influences may be felt. There is no possibility, by changing a currency system along the lines indicated, of direct benefit or injury to all classes of the people.

To consider next the question of benefit or injury to the country as a whole. The method of estimating the advantage or disadvantage to a country as a whole from this artificial redistribution of wealth brought about by a change in the currency system is to consider whether the classes benefitted are, on the whole, of more assistance to the country than the classes injured. It is not necessarily entirely a question of numbers, though numbers of course are to be carefully considered. President Walker, in his discussion of the money question, is inclined to believe that a currency very slowly depreciating from natural causes as compared with goods is beneficial to the country, inasmuch as it gives a certain "fillip" to industry by rendering the burdens of the most enterprising class in the community, the entrepreneurs, steadily lighter, while the burden is borne by the retired capitalists. In the same way we might possibly say that the stimulus which has come from the silver standard in some of the countries of the East has been beneficial to the country concerned, inasmuch as it has increased the profits of those who had enterprise and who were engaged in opening up the country, thus ultimately benefitting all, while those who suffered were the unenterprising who without the pressure from the energetic would have let the country, themselves included, stagnate. For example, in Sumatra the gainers would have been the planters; the losers persons like the Chinese coolies, so far as they did actually feel the effect, whose prosperity would have gone to the benefit of China rather than to that of Sumatra. The question of justice or political policy in distinction from economic gain is not discussed in this connection, though it may well be the one of chief importance.

This is not the place to discuss in detail the way in which the various currency systems have worked in the countries of the Orient. The principles laid down may be found exemplified in various ways. In the Federated Malay States and the Straits Settlements, for example, the profits to the bankers, the exporting producers, etc., have been made to a considerable extent apparently at the expense of the Chinese coolies, although the latter have doubtless never become conscious of it in most cases, and in fact in many instances have passed their silver on without loss till it reached the hands of some one dealing with gold countries. In part, also, the gain has been at the expense of the governments and of the European consumers of imported goods. In Sumatra, as indicated above, where with the Dutch gold standard and silver coins at a fixed par of exchange, employed in official business, has been combined also the customary free silver money of the Straits Settlements, used on the plantations for the payment of coolies and in general for ordinary business, similar effects are seen.

In Java, on the other hand, where the Dutch system, mainly a silver currency with a fixed rate of exchange with gold, has obtained since 1877, we find freedom from the speculative tendencies of the silver standard; but at the same time experience has shown that the serious depression in certain lines of industry, as coffee planting, tea planting, sugar planting, etc., brought about by falling prices in Europe or by other extraneous causes, has not had any offsetting advantage for the planters coming through the fall in the rate of exchange. It is entirely possible, however, that on the whole the gains to laborers and to government have been equal to

or have surpassed the losses to the planters. It is at least probable that owing to the fact that the business of Java is carried on almost solely through the home country it would not have been wise for Java to adopt a silver standard contrary to the system used in the home country, even though the planters are the enterprising class. But that the producers have felt the disadvantage of competition with silver countries is beyond question.

It is of special interest now for us to consider briefly the situation in the Philippines. The same principles apply there. The gainers from the silver standard have been the bankers, to a considerable extent the large merchant firms, and the large producers when they have been themselves the exporters. Generally speaking, however, these are European merchants who have bought from the producers, and there is reason to believe that competition has not been vigorous enough to keep them from being the gainers, rather than the producers from whom they bought. The losers have been the Filipinos, who have sold their products at silver rates, who have received their wages in silver, and who have bought imported goods; also government officials and the government that has received its taxes in the depreciated coins. The fact that in the Philippines the taxes have been largely indirect has not lessened materially the burden upon the government.

It seems to be a settled fact that the Filipinos will increase and increase rapidly their consumption of imported goods, imported machinery, etc., within a comparatively few years, so that if the silver standard were retained and silver were to continue to fall, the burden would rest the more heavily upon them. There is no especial reason for thinking that they would or could do

the work which has been done heretofore by the foreign merchants, exporters, and bankers, and thus make the gains coming from a falling rate.

The general principles, then, which experience throughout the Orient seems to substantiate show that a country cannot wisely fix its standard of money without making a careful study of the effect of the proposed standard upon the redistribution of wealth in the community. The advantage or disadvantage to the country of increasing the prosperity of one class at the expense of another cannot be overlooked, and the question is essentially a class question. Aside from the question of economic gain or loss there must be kept in mind also that of justice or injustice, and, from the political point of view, likewise there must be considered the sense of appreciation of gain or loss and of justice and injustice on the part of the persons affected. These last questions may well outweigh in importance the purely economic question of the redistribution of wealth.

CURRENCY PROBLEMS IN THE ORIENT—

DISCUSSION

CHARLES A. CONANT: The difficulties which our government has discovered in the Philippines in regard to the currency are symptoms of a world malady. A new crisis of exchange has been evoked by the recent fall in the gold price of silver, a crisis which does not affect the gold countries directly in their transactions at home, but does affect them profoundly in their relations with the East.

By an unfortunate combination of circumstances China has been subjected to a burden which, under her loose system of taxation, has withdrawn her from the market as a purchaser of silver and brought her into the market as a vender of it. The result has been primarily to depress the price of silver almost to one-third of its old historic parity. Much more important has been the effect of this fall in silver upon China and other silver-using countries in diminishing their power to buy abroad. There is danger that the powers, in exacting the last pound of flesh from China, have made it impossible for her to continue her purchases of \$200,000,000 annually in foreign goods. The fall in silver has necessarily produced a similar influence in less degree upon Mexico by adding greatly to the silver price of her imports, has arrested the development of the Philippines by discouraging the investment of American capital, and has threatened to invoke the same form of crisis in Siam, the Straits Settlements, and the extensive possessions of France in Asia.

Thus the unforeseen result of diplomatic greed is to defeat the purpose of all the costly and ostentatious

measures of Caucasian intervention in Chinese affairs for the last half century. I am a strong believer in "Imperialism" in the sense that the advanced powers should open the undeveloped countries to civilization and introduce among them the machinery of modern production, commerce, and finance; but of what use is it to fight for a new customer if he is to be robbed of his means for buying or of paying for what he buys?

The situation calls loudly for a remedy, but it is useless to seek this remedy in the delusive quicksands of international bimetallism. It is not strange, perhaps, that those who were impressed by the importance of a fixed par of exchange between the gold and silver countries should at a certain stage of economic knowledge have turned to bimetallism for a remedy. In the scientific sense of the term in which I use it here, however, bimetallism means the equal treatment of the bullion of two metals through the coinage of either (at a ratio fixed by law) at the option of the holder of the bullion. It was the aim of the bimetallists by thus opening an unlimited market to either metal to keep them equal to each other at an arbitrary parity. The experiment inevitably failed wherever it was put to the test, because it is not in the power of law to establish rigid relations of value between two different things. As well might it be attempted to enact by law that the price of wheat, when there is no restraint on production, should always have the relation of one and one-half to the price of corn as that the value of gold should always have the relation of sixteen or fifteen and one-half to that of silver.

The theory of bimetallism has been a Lorelei's song which has beclouded able minds and lured nations onto the rocks of monetary experiments which have

wrecked or all but wrecked their solvency; but it is to-day substantially a delusion of the past, no more to be invoked for settling monetary problems than the mercantile system for keeping a nation rich in gold.

The principal silver countries are not fitted for the introduction of a pure gold currency. Their scale of wages and prices is too low to make gold coins convenient in daily transactions, and their wealth in most cases is insufficient to justify them in entering upon a rivalry with the rich nations for the world's stock of gold. Is there, then, no remedy for existing conditions? Must the silver nations be condemned to a rate of exchange with the gold nations which fluctuates within the widest limits, which exposes their trade to greater uncertainty than the throw of the gambler's dice, and which repels from investment among them the accumulated riches of the great civilized nations? This by no means follows; there is a possible remedy based upon sound economic principles. That remedy I endeavored to introduce on a modest scale in the Philippine Islands, and I believe that it is the one remedy which must soon be applied upon a larger scale in all the silver using countries. This remedy consists in recognizing in the management of the currency the law of supply and demand.

There is in every country a certain demand for the tools of exchange. If we could calculate that demand with precision, we would know just what quantity of money was required at any given moment to do a country's business. But we cannot calculate it even for a given moment; and if we could make such a calculation, it would not be completed before it would be nullified by new conditions of supply and demand for commodities at home, by new conditions of foreign exchange,

and by new mental moods among producers and consumers. What we can do is to adopt a system which will respond by its own mechanism to the demands for currency by diminishing the supply when it becomes excessive and by increasing it when it becomes deficient.

It is possible to bring silver coins into a fixed relation to gold by so limiting the supply of such coins that it will always equal and no more than equal the demand at a fixed price. An excess in the quantity of silver inevitably forces down its price in relation to gold, and no power of civil law, however far that law extends, can defeat the paramount law of business that an excess of supply will cause a fall in price. The price of an article responds to the demand for it. If the silver currency of the Philippines is just sufficient in quantity to meet the demand for it, it will retain the value given it by law; if the supply is greater than the demand for it, no law can bolster up its price. Control of the quantity of the currency by the government is the only means of separating it from the fluctuations of the bullion market and of giving it a definite value in gold.

Government control of the supply of coinage does not mean that this supply shall be arbitrarily fixed without reference to the currents of commerce. If the supply of silver currency in the Philippines, in Mexico, or in any other silver country is kept at a fixed relation to gold, gold will continue to be, as it has nearly always been, the money of international commerce. An increased demand for currency will manifest itself by a high gold value for the local money, while a decline in the demand will manifest itself by the loss of such gold as the country has and by a decline in the gold value of its silver coins. Through the foreign exchanges it will always be possible to determine whether the supply of

currency is responding adequately or not to the demands of trade. If the government stands ready to coin additional silver coins whenever gold is offered for them at a fixed ratio, and stands ready to withdraw them from circulation whenever they are offered for gold, the quantity of the domestic circulation will respond with the same automatic regularity to the movements of commerce as though the whole currency were of gold. In what I have just said the words "foreign exchange" might properly be substituted for the word "gold," for in most cases the banks, through the prices which they fix for bills of exchange, will themselves regulate the volume of currency in circulation and the demand for additional coinage. They can do this with peculiar ease and even without any direct offer to redeem silver in gold if the government will establish a gold exchange fund in the financial capitals of the world, like London and New York, against which bills may be sold when the currency is redundant and where bills entitling the holder to silver coins may be bought with gold when there is a demand for them. The offer to receive the silver coins at a fixed par for public dues would establish a limited redemption, such as has alone maintained our own silver dollar at a par with gold.

This, in my opinion, is the only means of solving in an intelligent and effective manner the problem of the relations between the gold and silver countries and restoring something like par of exchange between them. It is possible that the fluctuations of exchange under such a system would occasionally exceed those between two gold standard countries, but they need not go far enough to cause any disturbance of prices and values at home or any serious loss to investors in the gold countries.

In order to secure the best results for silver as a commodity and for the steadiness of the monetary system of the silver countries, it is highly desirable that there should be some international concert of action between Mexico and those countries having dependencies in the East. Such concert of action would undoubtedly recognize the fall in the value of silver by the adoption of a new ratio of about 32 to 1, as has been proposed for the Philippines. If China is given a uniform monetary system, as provided in the recent draft of the treaty with England, she will absorb immense quantities of silver and do much to give to the metal stability of value. The adoption of a common unit of coinage between China, Mexico, the Philippines, the Straits Settlements, and Indo-China would undoubtedly do much to promote their trade with each other and with the gold countries.

It is not desirable, however, in my opinion, in the present state of international good faith and economic knowledge, that one nation should be bound to use the coins of another or that any nation should be deprived of that exclusive control over its own monetary system which is lacking in Mexico and the Philippines because their depreciated silver coins have become international in their use. It is desirable that each nation should have control of its own monetary system, in order that it may correct its own mistakes and suffer the consequences of its own blunders; but the time is evidently at hand for a new effort to restore the par of exchange between the gold countries and the East along lines conforming to economic laws instead of along lines vainly seeking to reverse them.

G. BRUCE WEBSTER: Personally I am in favor of silver as being the most suitable and beneficial form of money for the Filipinos themselves. While residing for some years in the Orient I was brought very closely in contact with the natives of those countries. Although I fully understand the inconvenience and hardship to Americans and Europeans consequent on the depreciating value of their stipends when measured in gold, I have seen no reason to believe that any hardship has resulted to the Filipino natives, whose needs are almost wholly supplied by silver, owing to the growing cheapness of silver. I instance this to show that although many people consider that silver is doomed to die in the Orient, in the Philippines particularly, I am of the opinion that for the Philippines and for the natives of those countries which are only in the earlier stages of civilization, whose wants are few and small, cheap currency is best suited.

The banks have been much abused for the profits they and they only are supposed to have made out of this variation of the value of currency in the Philippines. Professor Jenks has hit the nail on the head when he speaks of the laborers getting the benefit of the enhanced silver prices for his products sold in gold. He has doubted whether the laborer, the original producer, does get that; but it must follow, I think, that the profits of a large purchase price, in whatever coin or country, must necessarily permeate in effect until they reach the producer. As soon as foreign exchange falls the silver price of his products is enlarged and he shares in the consequent benefit.

Assuming that it is desirable to establish a system of coinage or currency for the Philippine Islands which will not be more favorable to the exports than to the im-

ports of the islands and which will give a more stationary standard of value in respect to their trade with countries having a gold basis currency, thus obviating the inconveniences of violent fluctuations in exchange, it is of first importance to select the system involving the least likelihood (1) of disturbing existing values and thus doing injustice to either debtors or creditors, (2) of adding to the cost of life's necessities, (3) of dislocating the wages scale and consequently restraining production, (4) of inconveniencing trade by adopting a form of money unsuited to the daily needs of the people, (5) of destroying confidence by the circulation of money that has not an intrinsic or guaranteed value obvious to the least enlightened.

There can be no doubt in the minds of those who have had experience with the conditions in those islands and similarly populated countries but that the establishment of American money in the Philippine Islands would be forcing a most unsuitable unit of value upon a people whose wages and personal and business needs are on so low a scale. Further there would be the convulsion which must result before they can be brought to realize that one American dollar is worth more than two and a half times that of the coin to which they are accustomed and which to the eye is at least equal to the silver dollar which would be used in all ordinary daily transactions. Gold coins would not circulate in such transactions, and the American silver dollar would be discredited amongst the great bulk of the population outside the one or two leading cities.

The question of the most suitable currency for the Philippines is now under discussion in Congress, and a bill was introduced the other day which I believe with a few alterations might meet the case next best to silver.

The bill provides for a silver peso of a certain grade or value, equal to the coin they are at present using, and redeemable on its being tendered to the treasury for gold or for the equivalent of gold. The chief advantage which appears on the surface is that of making exchange steady, for a fixed exchange is undoubtedly most beneficial to commerce.

It is proposed to support the peso on a gold basis by having a fund of American gold coins available to be exchanged at 50 American cents per peso. There should be nothing fictitious about this, and the government should be prepared to facilitate the exchange of gold or its equivalent for pesos. This exchange is not likely to be demanded to an inconvenient extent so long as the trade of the islands is in their favor, which is the normal condition with them and one that there is at present no sign of changing. The Senate committee, in its bill reported on December 20, appears to have formulated a scheme by which the parity between gold coins of the United States and the new silver pesos shall be maintained, but the practicability of this scheme is not at all clearly defined.

The opening clause of the bill prohibits it becoming operative until at least 20,000,000 silver pesos are coined, ready for or in circulation. This appears to indicate a possible delay which might be advantageously avoided. There should be no great difficulty in arranging for the exchange of silver peso certificates for the equivalent of existing Mexican and Filipino coins in circulation in the islands to an extent which would supply a large amount of silver for coinage into new pesos.

The bill provides that Mexican dollars shall be legal tender throughout the current year at a ratio in regard

to pesos which shall be fixed by proclamation by the Philippine government, and it is permitted that contracts made on the basis of Mexican dollars may be fulfilled in Mexican money. It seems evident that considerable confusion must arise among an ignorant people like the Filipinos from finding side by side in circulation two coins of apparently equal value, one of which, the Mexican dollar, will be worth only say 80 or 75 or 70 peso cents, whatever the ratio may be, while the other will be worth 100 cents. This will doubtless lead to losses when the natives are dealing with the small traders throughout the country, especially with the shrewd Chinese shopkeepers, who will know how to demand pesos when selling their wares and delude the ignorant into accepting the Mexican when they are acting as buyers.

Another difficulty likely to arise in consequence of a varying ratio between the new coinage and the present (Mexican) currency is in the case of banks and others having financial operations on a large scale. Suppose a bank receives deposits of Mexican dollars and makes loans to that extent when the ratio is 100 Mexican dollars equal to 76 pesos; the deposits would probably be withdrawn if the ratio moves to 78, whereas by the time the loans, generally made at three months, mature, if the ratio has moved to 75, the bank is penalized to the extent of 3 pesos per 100 Mexican dollars. That is, the value of the Mexican money has shrunk to that extent.

It would thus appear to be a fair proposition that on the date the bill becomes a law the ratio of Mexican dollars to new pesos should be fixed once for all, and that the importation of Mexican coins should then be prohibited. Should the importation not be stopped

until the end of 1903, the tendency will be greatly to increase the ultimate burden of responsibility in disposing of the demonetized coins, whether that burden falls on the government or on the community, for the requirements of commerce will necessitate settlement as usual, thereby increasing the amount of silver to be disposed of when the Mexican dollar ceases to be legal tender. It would be a palpable mistake to allow large additions to be made to the present legal tender doomed to sell as silver when demonetized at the end of 1903.

If the proposed law becomes effective, the balance of trade could be adjusted by the importation of American gold currency. This would largely find its way into the treasury gold fund in exchange for the silver pesos requisite for trade purposes.

HORACE WHITE: Just before the holiday adjournment of Congress, Senator Lodge reported from the Committee on the Philippines a bill (S. 6357) to regulate the currency of the islands. It provides, first, that the gold peso, equal to a half dollar of our money, shall be the unit of value, but does not provide for any gold coinage. Instead of that it makes the gold coins of the United States legal tender in the Philippines at the rate of one dollar for two pesos. Next it provides for a silver peso of full legal tender, to be coined from bullion bought by the government, of which the government must coin twenty millions, and may coin seventy-five millions. Thirdly, it provides for subsidiary silver coins to be legal tender for ten dollars.

The effect of this measure is to establish in the Philippines what is called the "limping standard," a phrase applied to countries which have the gold standard nominally, but have also a large amount of silver of full

legal tender. Germany, France, the other countries of the Latin Union, and the United States are in this category. None of the countries named consider the condition a happy one. The European nations took the limping standard because they could not help themselves; they caught it as people catch the measles. They had large amounts of silver in circulation in the early seventies, when the gold standard asserted itself over the civilized world, and they could not get rid of it. Germany made great efforts to sell hers, and did dispose of a part of it, but in doing so she broke the price of the metal so that when the Latin Union countries decided to stop coining silver they had no market in which to sell theirs. The United States is the only country which took this kind of measles voluntarily. We took it with our politics, but no political party is very proud of it now; nor shall we have any reason to be proud if, after our experience with it and our knowledge of it in other lands, we inflict it upon a people who are under our legislative control.

The great objection to the limping standard is its uncertainty. Those who are under its régime never know where they may stand a year hence. A bill is now pending in Congress to remove the uncertainty which the limping standard entails—a bill to provide for the redemption of the silver dollar in gold. The act of March 14, 1900, recognized the uncertainty by a clause requiring the Secretary of the Treasury to keep the silver dollar at par with the gold dollar, but did not provide him with any means to do so. Senate bill 6357 recognizes the same uncertainty attaching to this system in the Philippines by authorizing the government of the islands to adopt such measures as it may deem proper to maintain parity between the gold and silver

coins, and to borrow ten million dollars in gold for that purpose. This clause of the bill expresses the fear of its framers that the equilibrium of the standard will not be maintained without extraneous and extraordinary efforts.

Looking at the details of the bill, it is very doubtful whether parity can be maintained if the government of the Philippines exercises all the powers conferred upon it. It must coin twenty million and it may coin seventy-five million silver pesos of full legal tender, at the ratio of 32 to 1, while the market ratio of silver to gold is 43 to 1. The line of prudence and safety under the limping standard lies in keeping the amount of the overvalued money (the silver pesos) no greater than the retail trade of the country can absorb, but the temptation will be ever present to overpass the limit. We know how this is ourselves. Unless the Philippine government is wiser than the Washington government was, we may expect to see the limit overpassed as it was under the Sherman act.

In devising a new monetary system for the Philippines the simplest plan is the best. The gold standard as provided in the bill before us with a silver subsidiary coinage of the kind provided in the act passed by Congress last year is quite sufficient. There is no good reason for thrusting in a third kind of money whose sole virtue will consist in its redemption in gold. These pesos would be both an element of danger and a needless expense. As the bill provides for issuing paper certificates for them like our silver certificates, why not issue the certificates in the first instance? The pesos are to circulate on the credit of the government, not on their intrinsic value. Our silver certificates would cir-

culate just as well, perhaps better, if there were not a dollar of silver behind them. If the Filipinos prefer to handle silver rather than paper, give them plenty of half pesos, for which the bill also provides. The natives probably know that two halves are equal to a whole.

As the pesos are quite unnecessary, the only visible object in coining them is to make a market for silver bullion. We trust that the Senate committee is not now trying to "do something for silver" at the expense of the Filipinos, but we recall the fact that the Senate bill of the last session did have that aim, since it contained a clause that the coins might be made at our mint, but that the silver bullion so coined should be of American production.

We are told by some people that if we introduce the single gold standard we shall increase the wages of labor in the islands. That depends upon the ratio between gold and silver which may be taken as a starting point. Wages in the Philippines, although nominally the same as of old, have been actually reduced by the decline in the value of silver. The laborer who gets a peso in wages cannot buy so much with it as before. As regards future wages the question is, What shall the future peso be? The bill says it shall be an amount of gold equal to half of an American dollar. That is the ratio of 32 to 1. It is a fair starting point, since it was the market ratio when we took the islands. It was the ratio actually adopted by Japan in the same year. There has been a fresh drop in silver within a few weeks which has cut the effective wages of labor still lower. The Filipino laborer has been thrown down by the force of circumstances, and Congress ought not to hold him down, but rather to lift him up and put him on his feet, especially

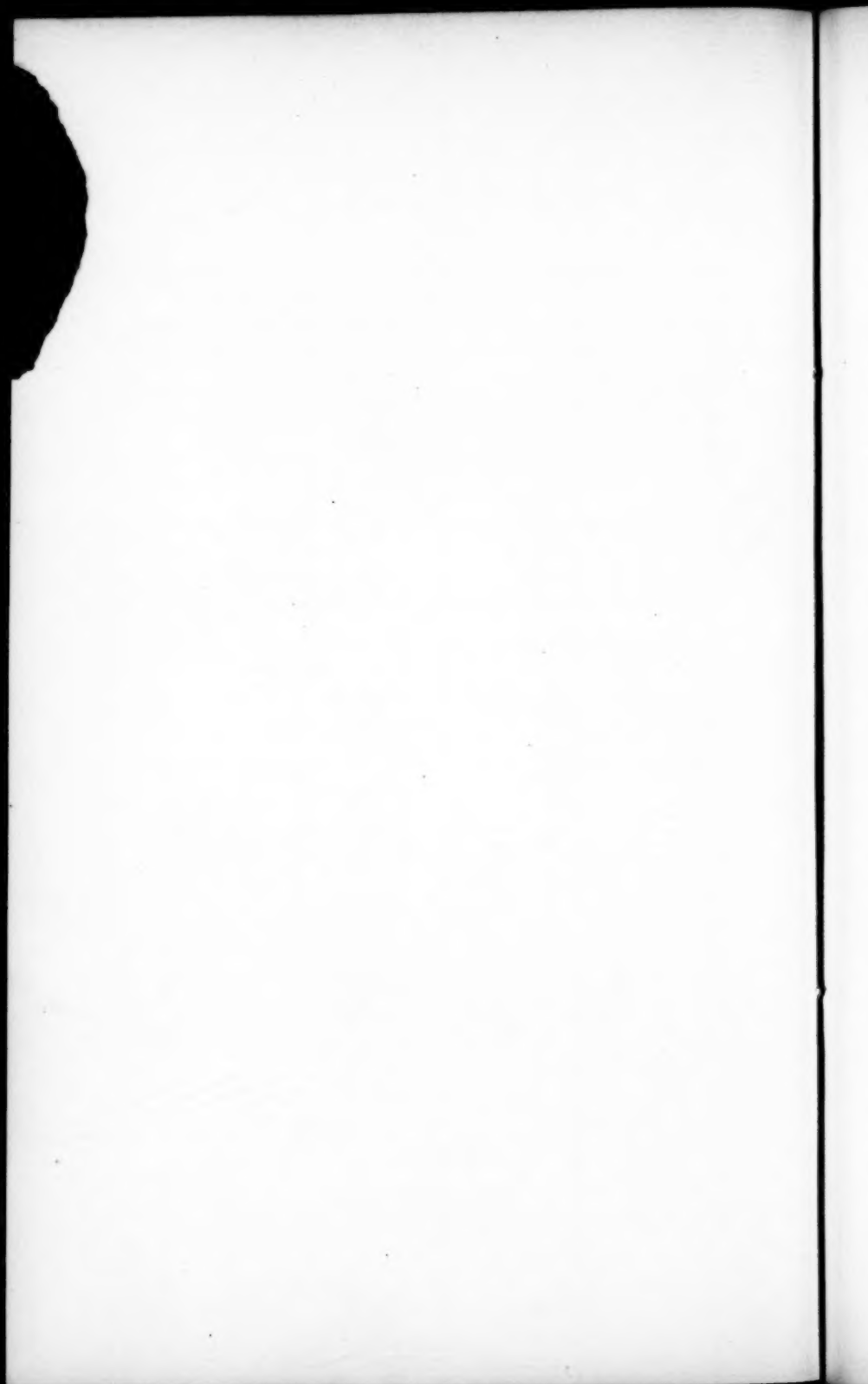
since Congress neglected its duty in this particular last summer, when it might have avoided the major part of this trouble.

JEREMIAH W. JENKS: While I agree absolutely with Mr. Conant's remedies for the evil monetary conditions in the Philippines, and while I agree substantially with his suggestion as to what should be done now in China and throughout the East, I am by no means able to agree throughout with his course of reasoning in his interpretation of monetary history. His statement regarding the absolute impotence of a law of government in determining prices as opposed to laws of business I of course agree with in a general way; but it has been and is still my belief that a law of government might very easily so affect the supply or so affect the demand for a product that it could to a considerable degree determine its price. So it has been my opinion that it would be possible for a government, by legislation which would affect the demand for silver, to increase the price of silver as compared with gold, and *vice versa*. It is not worth while to enter into a discussion of the bi-metallic question at this time, but I wish to record my belief relative to some principles often referred to in that connection.

I should like to refer briefly also to the suggestion made by Mr. Webster regarding the situation in the Philippines and the kind of currency needed there. He says that in countries low in the grade of civilization, as China, the Philippines, the Straits Settlements, and others, a cheap currency is needed. In a proper sense of the word "cheap" I agree with that; and I am quite of the opinion that it would be unfortunate if we were to attempt to introduce into the Philippines at the

present time a gold currency for the money to be continually used among the people.

I am decidedly in favor of the plan suggested by Mr. Conant, a plan providing that the monetary standard shall be gold, but that the chief coins to be current in the hands of the Filipinos shall be silver, a plan which seems to me to meet the requirements suggested by Mr. Webster. Since Mr. Webster has stated that it is desirable not to have fluctuations in the rates of exchange, I do not see but that he and I are also in accord on that particular, and that he is in fact favoring a plan similar to that proposed by Mr. Conant. We should so fix our currency on the plan suggested by Mr. Conant that there will be a fixed rate of exchange between gold and silver, but so that gold itself will be very little used while silver coin will be the coin current.



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